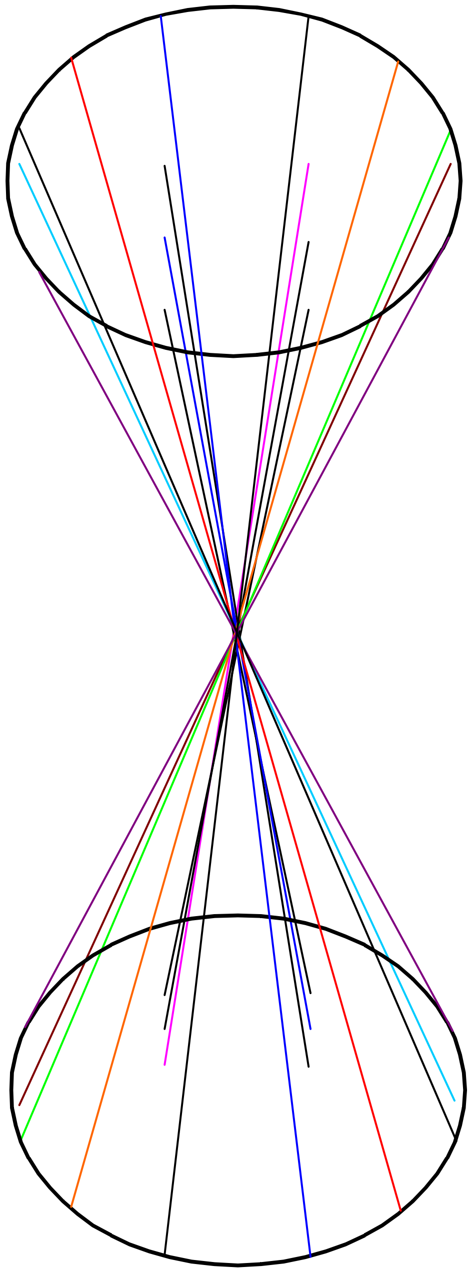
TOYO KANETSU K.K.

2007

Annual

Report



Profile

Toyo Kanetsu K.K. (TKK) was established in the year of 1941. Since that time, TKK has continued to meet the requirements of the industry through our policy of "Customers First."

The Plant & Machinery Division was established in 1950 when in-house welding technology was developed for welded storage tanks. Since then, our expertise has expanded to provide customers various kinds of storage tanks consisting of more than 5,000 units varying from crude oil storage tanks to LNG storage tanks. Particularly, we are proud of our outstanding track record of LNG Storage Tank construction, with 25 tanks in Japan and 50 tanks in overseas sites in Asia, Africa, Middle East, Oceania and the Western Hemisphere. Our technical expertise and our outstanding record of Safety, Quality & Delivery have been recognized and appreciated by the major clients throughout the world.

The Building Construction Division was started in 1989 for construction of apartment houses with application of modular steel frame structures. The Division has expanded its activities to shop and office buildings with use of prefabricated construction methods as well as conventional construction methods.

The Material Handling Systems Division was begun in 1953 for manufacture and installation of highly standardized conveyors systems. Since that time, the Division has continued to develop the technology to meet the needs of our clients. The Division supplied one of the largest Airport Baggage Handling Systems in the world in 1998 at Kuala Lumpur International Airport in Malaysia. Also, as a leading provider company of Logistics Solutions in Japan, the Division has successfully completed numerous projects such as Distribution Center System, Truck Terminal System, Food Distribution Processing Center and Postal Sorting System. The Division became a subsidiary company of TKK under the name of Toyo Kanetsu Solutions K.K. in 2002 in order to maximize the efficiency and also to vitalize TKK Group companies.

TKK will continue to provide the advanced technology to answer the needs of its clients for today and tomorrow.

Contents

Toyo Kanetsu K.K. and Consolidated Subsidiaries

Financial Highlights

	Millions of yen					Thousands of U.S. dollars
	2007	2006	2005	2004	2003	***2007***
For the Years Ended 31st March:						
Net Sales	**¥ 45,548**	¥ 45,530	¥ 39,734	¥ 43,914	¥ 36,662	***$385,703***
Material Handling Systems Division	**17,316**	20,909	13,595	17,550	15,487	***146,637***
Plant & Machinery Division	**17,029**	14,643	15,217	10,386	7,543	***144,204***
Building Construction Division	**5,944**	5,668	7,533	9,280	9,499	***50,333***
Real Estate Utilizing Division	**521**	-	-	-	-	***4,412***
Other	**4,738**	4,310	3,389	6,698	4,133	***40,117***
Operating Income	**1,887**	1,904	1,349	923	372	***15,975***
Net Income (Loss)	**2,836**	1,626	1,011	1,042	(2,333)	***24,020***
Cash dividends	**415**	277	-	-	-	***3,516***
At 31st March:						
Current Assets	**30,226**	25,309	22,796	21,024	18,643	***255,963***
Net Property, Plant and Equipment	**16,956**	16,566	16,544	17,052	17,966	***143,584***
Investments and Advances	**21,498**	24,852	16,300	16,103	11,525	***182,046***
Intangibles and Deferred Charges	**322**	413	317	280	295	***2,725***
Total Assets	**69,002**	67,140	55,957	54,459	48,429	***584,318***
Current Liabilities	**22,865**	20,084	20,420	16,893	18,864	***193,626***
Long-Term Liabilities	**14,195**	15,647	11,507	13,534	10,014	***120,203***
Minority Interests in Consolidated Subsidiaries	-	10	25	19	20	-
Shareholders' Equity	-	31,399	24,005	24,013	19,531	-
Total Liabilities, Minority Interests and Shareholders' Equity	-	67,140	55,957	54,459	48,429	-
Shareholders' Equity	**24,651**	-	-	-	-	***208,748***
Valuation and Translation Adjustments	**7,283**	-	-	-	-	***61,672***
Minority Interests in Consolidated Subsidiaries	**8**	-	-	-	-	***69***
Total Liabilities and Net Assets	**69,002**	-	-	-	-	***584,318***
Order Backlog	**34,176**	38,467	34,232	34,701	40,266	***289,404***

	Yen					*U.S. dollars*
Per Share:						
Net Income (Loss)	**¥ 20.52**	¥ 11.76	¥ 7.31	¥7.53	¥ (16.85)	***$ 0.17***
Cash dividends	**3.00**	2.00	-	-	-	***$ 0.03***
Shareholders' Equity	**231.10**	227.11	173.57	173.55	141.18	***$ 1.96***
Number of Shareholders	**16,797**	17,005	16,418	16,078	17,102	
Number of Employees	**573**	552	525	564	573	

The U.S. dollar amounts in this annual report represent translations of Japanese yen at the rate of ¥118.09=$1.00, solely for the reader's convenience.

Toyo Kanetsu K.K. and Consolidated Subsidiaries

Message from the President

Overview of Business

(1) Development of operations and results at the Corporate Group

In the fiscal year under review, the Japanese economy continued to recover driven by high corporate profits, strong capital investments and buoyant exports on the back of expanding overseas economies, despite risk factors such as price hikes of oil and other resources.

Under such macroeconomic circumstances, the Material Handling Systems Business benefited from a pickup of corporate investment in logistics systems, amid further progress in the reorganization of logistics bases and the outsourcing of logistics, reflecting a social trend toward logistics that are efficient and have less environmental impact.

In the Plant & Machinery Business, energy-related investments continued to be active because of increased demand for energy around the world. Investments in storage facilities were strong in both producing regions, such as the Middle East, Africa, Southeast Asia and Australia, and consuming regions including the U.S., China, South Korea and Europe. In Japan, there was high demand for quakeproofing work in the maintenance field. In the Building Construction Business, the business climate remained severe because of fierce competition to win orders and a rise in the prices of building materials.

Under this business environment, consolidated net sales for the fiscal year remained almost unchanged from the previous year at JPY45.5 billion (US$386 million). Operating income was JPY1.9 billion (US$16 million), down 0.9% from a year earlier, ordinary income was JPY2.5 billion (US$21 million), up 15.2%. Net income soared 74.4% to JPY2.8 billion (US$24 million). However, total orders received dropped sharply 20.8% to JPY36.0 billion (US$305 million).

Operations by business are as follows:

In the Material Handling Systems Business, we implemented proactive sales activities, while focusing on IT-based material handling systems such as our mainstay Sorting System for retailers, Picking System for consumer cooperatives, and Warehouse Management Systems (WMS), and while using things such as exhibitions, forums, and feasibility facilities for RFIDs (radio frequency IC tags). Both sales and profits declined in the fiscal year under review, as large projects decreased compared with the previous year.
As a result, net sales at this business posted JPY17.3 billion (US$147 million), down 17.2% from the preceding year, and operating income was JPY0.7 billion (US$6 million), down 47.6%. Orders received totaled JPY16.8 billion (US$143 million), down 4.4%.

At the Plant & Machinery Business, there was strong overseas demand for oil, LPG and LNG storage tanks during the fiscal year under review. Taking advantage of this opportunity, we carried out brisk sales activities focusing on profits mainly in the Middle East and Southeast Asia, regions that we have supplied for many years, by making use of our technical capability, reliability and international competitiveness as a specialist manufacturer. As a consequence, we won orders for two LNG tanks at an LNG plant in Shanghai, China, the first order we received from the country, and for spherical tanks from India and Singapore.
In the domestic market, we focused on sales activities aiming to win orders for new LNG tanks. In the area of maintenance work, there was high demand for quakeproofing work for floating roof tanks as a result of a partial amendment to the Fire Service Law. In response, we strengthened our maintenance-work related organization and sales activities. Consequently, we were able to receive more orders for such work.
We completed construction work for LPG and LNG tanks and delivered them in the domestic and worldwide markets. Meanwhile, we started large-scale work for LNG and oil tanks, for which we had received new orders, as the processing of materials for this work progressed favorably. Hence, sales increased from the previous year. The business climate was harsh, partly because of cost increase factors such as price hikes of steel and other raw materials. Against this backdrop, we strove to secure profits by strictly managing costs.
As a result, net sales at this business posted JPY17.0 billion (US$144 million), up 16.3% from the previous year, and operating income was JPY1.1 billion (US$9 million), up 99.1%. Orders received totaled JPY13.7 billion (US$116 million), down 39.0%.

In the Building Construction Business, we focused our business activities on profitability for our core sector: the construction of leased apartments. This resulted in improving profits substantially. In other construction sectors, we worked hard to expand our business scales and domains.
As a result, net sales from this business were JPY5.9 billion (US$50 million), up 4.9% from a year earlier, and operating income jumped 48.1% to JPY0.1 billion (US$1 million). Orders received amounted to JPY5.5 billion (US$46 million), up 0.8%.

Group companies, which are engaged in the real estate leasing business and businesses other than those mentioned above, endeavored to expand and develop their businesses. Aggregate net sales were JPY5.3 billion (US$45 million), up 22.0%.

(2) Future issues for the Corporate Group

The Group will further improve corporate value by tackling the following four management issues on a group-wide basis, with aim of "creating a sound, strong and dynamic corporate group."

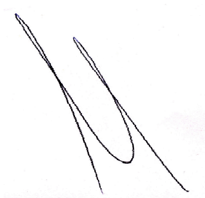
1. To make corporate structure profitable and improve earnings power
We will make further efforts to reform and strengthen our core businesses from the strategic and organizational perspective, improve operational efficiency and reduce costs.

2. To encourage vitality among personnel and efficiently use human resources
We will strive to further enhance overall employee competence and organizational strength and invigorate the workplace, through the "reform and overhaul of personnel and training structures and systems."

3. To establish corporate governance and compliance management
We will strengthen the functions of the board of directors and the board of auditors, and improve the internal control and compliance structures, aiming to implement fair and transparent management.

4. To strengthen group management
We will further boost the Group's comprehensive capability by unifying the Group's basic operation policies and reinforcing the management bases of the Group companies.

June 2007



Shigeaki Kiyota
President & Representative Director

Board of Directors and Corporate Auditors

Board of Directors

President & Representative Director .... Shigeaki Kiyota
Vice President & Representative Director .... Takeshi Mizukami
Directors .... Sadao Arita
.... Shinji Shimazaki
.... Toru Yanagawa
Auditors .... Teruo Nojo
.... Masaharu Hino
.... Yoshihumi Murashige
.... Koichi Endo

Line of Business

Plant & Machinery Business:

Design & Engineering, Procurement,
Shop-Fabrication and Construction of:
Floating Roof Tank
Cone Roof Tank
Dome Roof Tank
－LNG/Ethylene Storage Tank, etc.
－LPG Storage Tank, etc.
Spherical Tank

Building Construction Business:

Design and Construction of:
Apartment House
Shop Building
Office and Warehouse Buildings

Real Estate Business:

Sale, Brokerage and Leasing of:
Office Building
Apartment House
Distribution Center
Real estate

Material Handling Systems Business:

Planning, Design, Manufacture, Construction and Marketing of:
Distribution Center System
Truck Terminal System
Production Line System
Airport Baggage Handling System
Postal Sorting System
Food Processing Center System
Apparel Center System
Warehouse Management System
Engineering, Manufacturing and Installation of System's Facilities,
their relative Civil Works and Architectural Works

Qualification

- Listed in primary stock exchanges (Tokyo).
- Quality Management System to ISO 9001 certified by Bureau Veritas Quality International (BVQI) for flat bottomed vertical cylindrical storage tank for low temperature service.
- Quality Management System to ISO 9001 certified by Bureau Veritas Quality International (BVQI) for Baggage Handling System, Slide Shoe Type Sorting Conveyor and Wheel Up Sorting Conveyor.

Subsidiaries, Affiliated Companies and Line of Business

Subsidiaries which are consolidated, and affiliated companies which are accounted for by the equity method, are as follows.

Consolidated Subsidiaries

Toyo Kanetsu Solutions K.K.
Share Capital : 100.0%
Line of Business : Logistics Solution Provider

K-Techno Inc.
Share Capital 100.0%
Line of Business Consulting & Maintenance of Material Handling System

TKL Co., Ltd.
Share Capital : 100.0%
Line of Business : Rental/Leasing, Insurance & Travel Agent

Toyo Service System K.K.
Share Capital : 100.0%
Line of Business : Real Estate Management, Welfare Facilities Management, Gardening/ Floriculture Business Property, Plant & Equipment Maintenance.

Global Eight Co.
Share Capital : 84.0%
Line of Business : Commodity & Foodstuffs Trading

P.T. Toyo Kanetsu Indonesia
Share Capital : 100.0%
Line of Business : Storage Tanks/ Pressure Vessels/ Onshore & Offshore Steel Structures

Al Ghallilah Engineering & Construction L.L.C.
Share Capital : 65.0%
Line of Business : Storage Tanks/ Pressure Vessels / Onshore & Offshore Steel Structures

TKK-USA,INC
Share Capital : 100.0%
Line of Business : Storage Tanks/ Pressure Vessels/ Onshore & Offshore Steel Structures

Unconsolidated Subsidiary

Toyo Kanetsu Singapore Pte. Ltd.
Share Capital : 100.0%
Line of Business : Storage Tanks/ Pressure Vessels

Affiliated Companies
(Equity Method)

Toyo Koken K.K.
Share Capital : 39.3%
Line of Business : Electric-driven winches, Conveyors, Balancer & Robots

Toyo Miyama Co., Ltd.
Share Capital : 49.0%
Line of Business : Prefabrication of Unit House

Katayama Co.
Share Capital : 22.0%
Line of Business : Architectural Management

Manavis Co., Ltd.
Share Capital : 20.6%
Line of Business : Cosmetics, Cleaning Products

Toyo Kanetsu (Malaysia) Sdn. Bhd.
Share Capital : 49.0%
Line of Business : Material Handling Systems, Storage Tanks/ Pressure Vessels / Onshore & Offshore Steel Structures

Toyo Kanetsu K.K. and Consolidated Subsidiaries

Consolidated Balance Sheets

As at March 31, 2007 and 2006

ASSETS	Millions of yen		*Thousands of U.S. dollars (Note 4)*
	2007	2006	***2007***
Current Assets:			
Cash on hand and at bank (Note 5)	**¥7,138**	¥7,966	***$60,445***
Marketable securities (Notes 5 and 6)	**1,499**	2,000	***12,695***
Notes and accounts receivable	**8,615**	7,637	***72,955***
Less: Allowance for doubtful accounts	**(238)**	(101)	***(2,018)***
	8,377	7,536	***70,937***
Inventories (Note 7)	**10,153**	6,762	***85,977***
Deferred tax assets (Note 11)	**977**	-	***8,273***
Other current assets	**2,082**	1,045	***17,636***
Total current assets	**30,226**	25,309	***255,963***
Property, Plant and Equipment (Note 9)**:**			
Buildings and structures	**10,316**	10,808	***87,353***
Machinery and equipment	**4,223**	4,023	***35,763***
Land (Note 3(8))	**9,073**	9,266	***76,833***
Leased assets (Note 14)	**6,718**	6,516	***56,886***
Construction in progress	**293**	70	***2,479***
Less: Accumulated depreciation	**(13,667)**	(14,117)	***(115,730)***
Total property, plant and equipment	**16,956**	16,566	***143,584***
Investments and Advances:			
Investments in securities (Notes 8 and 9)	**17,785**	21,005	***150,608***
Long-term loans receivable	**1,148**	1,523	***9,717***
Other investments	**3,115**	3,283	***26,382***
Less: Allowance for doubtful accounts	**(550)**	(959)	***(4,661)***
Total investments and advances	**21,498**	24,852	***182,046***
Intangibles:			
Intangible fixed assets	**322**	413	***2,725***
Total intangibles	**322**	413	***2,725***
	¥69,002	¥67,140	***$584,318***

The accompanying notes are an integral part of the consolidated financial statements.

LIABILITIES and NET ASSETS	Millions of yen		Thousands of U.S. dollars (Note 4)
	2007	2006	***2007***
Current Liabilities:			
Short-term debt (Note 9)	**¥4,861**	¥4,653	***$41,162***
Notes and accounts payable	**2,285**	2,227	***19,352***
Accrued income taxes (Note 11)	**128**	522	***1,083***
Accrued liabilities	**3,487**	4,472	***29,528***
Advances from customers	**9,604**	7,092	***81,329***
Accrued bonuses	**204**	182	***1,725***
Reserve for losses on work in progress	**1,212**	304	***10,263***
Reserve for warranty costs for completed works	**20**	-	***169***
Reserve for contingent loss	**639**	-	***5,410***
Other current liabilities	**425**	632	***3,605***
Total current liabilities	**22,865**	20,084	***193,626***
Long-Term Liabilities:			
Long-term debt (Note 9)	**4,361**	3,651	***36,926***
Deferred tax liabilities on revaluation of land (Note 3(8) and 11)	**2,174**	2,174	***18,410***
Deferred tax liabilities (Note 11)	**5,156**	6,179	***43,662***
Accrued retirement benefits for employees (Note 10)	**2,353**	3,526	***19,924***
Accrued retirement benefits for directors and corporate auditors	**141**	102	***1,196***
Other long-term liabilities	**10**	15	***85***
Total long-term liabilities	**14,195**	15,647	***120,203***
Minority Interests in Consolidated Subsidiaries	**-**	10	-
Commitments and Contingent Liabilities (Note 16)			
Shareholders' Equity:			
Common stock:			
Authorized: 297,000,000 shares			
Issued: 138,730,741 shares	**-**	18,580	-
Additional paid-in capital	**-**	1,104	-
Accumulated earnings	**-**	2,546	-
Unrealized gains on revaluation of land (Note 3(8))	**-**	391	-
Net unrealized holding gains on investments in securities	**-**	9,526	-
Foreign currency translation adjustments	**-**	(682)	-
	-	31,465	-
Less: Treasury stock, at cost	**-**	(66)	-
Total shareholders' equity	**-**	31,399	-
	-	¥67,140	-
Net Assets			
Shareholders' Equity:			
Common stock:			
Authorized: 297,000,000 shares			
Issued: 138,730,741 shares	**18,580**	-	***157,338***
Additional paid-in capital	**1,104**	-	***9,349***
Accumulated earnings	**5,050**	-	***42,760***
Less: Treasury stock, at cost	**(83)**	-	***(699)***
Total shareholders' equity	**24,651**	-	***208,748***
Valuation and Translation Adjustments:			
Net unrealized holding gains on investments in securities	**7,557**	-	***63,993***
Deferred gains or losses on hedges	**(16)**	-	***(137)***
Unrealized gains on revaluation of land (Note 3(8))	**391**	-	***3,315***
Foreign currency translation adjustments	**(649)**	-	***(5,499)***
Total valuation and translation adjustments	**7,283**	-	***61,672***
Minority Interests	**8**	-	***69***
Total Net Assets	**31,942**	-	***270,489***
	¥69,002	-	***$584,318***

The accompanying notes are an integral part of the consolidated financial statements.

Toyo Kanetsu K.K. and Consolidated Subsidiaries

Consolidated Statements of Operations

For the years ended March 31, 2007 and 2006

	Millions of yen		*Thousands of U.S. dollars (Note 4)*
	2007	2006	***2007***
Net Sales	**¥45,548**	¥45,530	***$385,703***
Cost of Sales (Note 13)	**39,920**	40,035	***338,047***
Gross profit	**5,628**	5,495	***47,656***
Selling, General and Administrative Expenses (Notes 12 and 13)	**3,741**	3,591	***31,681***
Operating Income	**1,887**	1,904	***15,975***
Other Income (Expenses):			
Interest and dividend income	**278**	251	***2,353***
Interest expense	**(234)**	(327)	***(1,982)***
Exchange gain (loss)	**(48)**	119	***(404)***
Equity in income of unconsolidated subsidiaries and affiliates	**504**	120	***4,270***
Gain on trading of derivatives	**56**	75	***476***
Other, net	**14**	(10)	***121***
	570	228	***4,834***
Income before special items	**2,457**	2,132	***20,809***
Special Profit (Loss):			
Gain (Loss) on sale or disposal of property, plant and equipment, net	**136**	(89)	***1,155***
Impairment losses on fixed assets	**-**	(895)	***-***
Provision for bad debts	**(117)**	(249)	***(992)***
Reversal of provision for bad debts	**13**	97	***112***
Loss on write-down of investments in securities	**(22)**	0	***(189)***
Gain on sale of investments in securities	**18**	568	***152***
Gain on redemption of preferred investment bond	**-**	130	***-***
Gain on redemption of investment in affiliate	**128**	-	***1,087***
Proceed of insurance money on overseas project	**45**	-	***381***
Provision for contingent loss	**(639)**	-	***(5,410)***
Gain on dissolution of the retirement annuity system	**-**	71	***-***
Depreciation of leased assets	**-**	(99)	***-***
Other, net	**40**	183	***333***
	(398)	(283)	***(3,371)***
Income before income taxes and minority interests	**2,059**	1,849	***17,438***
Income Taxes (Note 11)**:**			
Current	**162**	511	***1,369***
Deferred	**(948)**	(248)	***(8,025)***
	(786)	263	***(6,656)***
Minority Interests in Net Income (Loss) of Consolidated Subsidiaries	**9**	(40)	***74***
Net Income	**¥2,836**	¥1,626	***$24,020***

	Yen		*U.S. dollars (Note 4)*
Per Share (Note 3 (20))			
Net income	**¥20.52**	¥11.76	***$0.17***

The accompanying notes are an integral part of the consolidated financial statements.

Toyo Kanetsu K.K. and Consolidated Subsidiaries

Consolidated Statements of Shareholders' Equity

For the years ended March 31, 2006 and 2005

	Number of shares of common stock	Millions of yen: Common stock	Additional paid-in capital	Accumulated earnings (deficit)	Unrealized gains on revaluation of land	Net unrealized holding gains (losses) on investment securities	Foreign currency translation adjustments	Treasury stock
Balance at March 31, 2005	138,730,741	¥18,580	¥1,104	¥980	¥331	¥3,720	¥(657)	¥(53)
Net income for the year	-	-	-	1,626	-	-	-	-
Realized losses on revaluation of land	-	-	-	(60)	60	-	-	-
Net unrealized holding gains on investments	-	-	-	-	-	5,806	-	-
Foreign currency translation adjustments	-	-	-	-	-	-	(25)	-
Repurchase of treasury stock	-	-	-	-	-	-	-	(13)
Balance at March 31, 2006	138,730,741	¥18,580	¥1,104	¥2,546	¥391	¥9,526	¥(682)	¥(66)

The accompanying notes are an integral part of the consolidated financial statements.

Toyo Kanetsu K.K. and Consolidated Subsidiaries

Consolidated Statements of Changes in Net Assets

For the years ended March 31, 2007 and 2006

	Number of shares of common stock	Millions of yen: Common stock	Additional paid-in capital	Accumulated earnings (deficit)	Treasury stock	Total Shareholders' Equity
Balance at March 31, 2006	138,730,741	¥18,580	¥1,104	¥2,546	¥(66)	¥22,164
Cash dividends paid	-	-	-	**(277)**	-	**(277)**
Net income for the year	-	-	-	**2,836**	-	**2,836**
Repurchase of treasury stock	-	-	-	-	**(17)**	**(17)**
Effect of decrease in number of consolidated subsidiaries	-	-	-	**(55)**	-	**(55)**
Net unrealized holding gains on investments	-	-	-	-	-	-
Deferred gains or losses on hedges	-	-	-	-	-	-
Foreign currency translation adjustments	-	-	-	-	-	-
Minority interest	-	-	-	-	-	-
Balance at March 31, 2007	**138,730,741**	**¥18,580**	**¥1,104**	**¥5,050**	**¥(83)**	**¥24,651**

	Millions of yen: Net unrealized holding (gains) losses on investment securities	Deferred gains or losses on hedges	Unrealized gains on revaluation of land	Foreign currency translation adjustments	Total valuation and translation adjustments	Minority interest	Total Net Assets
Balance at March 31, 2006	¥9,526	—	¥391	¥(682)	¥9,235	¥10	¥31,409
Cash dividends paid	-	-	-	-	-	-	**(277)**
Net income for the year	-	-	-	-	-	-	**2,836**
Repurchase of treasury stock	-	-	-	-	-	-	**(17)**
Effect of decrease in number of consolidated subsidiaries	-	-	-	**26**	**26**	-	**(29)**
Net unrealized holding gains on investments	**(1,969)**	-	-	-	**(1,969)**	-	**(1,969)**
Deferred gains or losses on hedges	-	**(16)**	-	-	**(16)**	-	**(16)**
Foreign currency translation adjustments	-	-	-	**7**	**7**	-	**7**
Minority interest	-	-	-	-	-	**(2)**	**(2)**
Balance at March 31, 2007	**¥7,557**	**¥(16)**	**¥391**	**¥(649)**	**¥7,283**	**¥8**	**¥31,942**

	Number of shares of common stock	Thousands of U.S. dollars (Note 4) Common stock	Additional paid-in capital	Accumulated earnings (deficit)	Treasury stock	Total Shareholders' Equity
Balance at March 31, 2006	*138,730,741*	*$157,338*	*$9,349*	*$21,555*	*$(560)*	*$187,682*
Cash dividends paid	-	-	-	***(2,345)***	-	***(2,345)***
Net income for the year	-	-	-	***24,020***	-	***24,020***
Repurchase of treasury stock	-	-	-	-	***(139)***	***(139)***
Effect of decrease in number of consolidated subsidiaries	-	-	-	***(470)***	-	***(470)***
Net unrealized holding gains on investments	-	-	-	-	-	-
Deferred gains or losses on hedges	-	-	-	-	-	-
Foreign currency translation adjustments	-	-	-	-	-	-
Minority interest	-	-	-	-	-	-
Balance at March 31, 2007	***138,730,741***	***$157,338***	***$9,349***	***$42,760***	***$(699)***	***$208,748***

	Thousands of U.S. dollars (Note 4) Net unrealized holding (gains) losses on investment securities	Deferred gains or losses on hedges	Unrealized gains on revaluation of land	Foreign currency translation adjustments	Total valuation and translation adjustments	Minority interest	Total Net Assets
Balance at March 31, 2006	*$80,663*	—	*$3,315*	*$(5,775)*	*$78,203*	*$84*	*$265,969*
Cash dividends paid	-	-	-	-	-	-	***(2,345)***
Net income for the year	-	-	-	-	-	-	***24,020***
Repurchase of treasury stock	-	-	-	-	-	-	***(139)***
Effect of decrease in number of consolidated subsidiaries	-	-	-	***218***	***218***	-	***(252)***
Net unrealized holding gains on investments	***(16,670)***	-	-	-	***(16,670)***	-	***(16,670)***
Deferred gains or losses on hedges	-	***(137)***	-	-	***(137)***	-	***(137)***
Foreign currency translation adjustments	-	-	-	***58***	***58***	-	***58***
Minority interest	-	-	-	-	-	***(15)***	***(15)***
Balance at March 31, 2007	***$63,993***	***$(137)***	***$3,315***	***$(5,499)***	***$61,672***	***$69***	***$270,489***

The accompanying notes are an integral part of the consolidated financial statements.

Consolidated Statements of Cash Flows

For the years ended March 31, 2007 and 2006

	Millions of yen		*Thousands of U.S. dollars (Note 4)*
	2007	2006	***2007***
Cash Flows from Operating Activities:			
Income before income taxes and minority interests	**¥2,059**	¥1,849	***$17,438***
Adjustments for:			
Depreciation and amortization	**1,516**	1,551	***12,840***
Depreciation of leased assets	**-**	99	***-***
Amortization of long-term prepaid expenses	**679**	-	***5,751***
Impairment losses on fixed assets	**-**	895	***-***
Decrease in provision for allowance for doubtful accounts	**(271)**	(76)	***(2,296)***
Increase in provision for bonuses	**22**	19	***183***
Decrease in provision for employees' retirement benefits	**(1,173)**	(161)	***(9,934)***
Increase (decrease) in provision for retirement benefit for directors and corporate auditors	**39**	(31)	***333***
Increase in provision for losses on work in progress	**908**	147	***7,685***
Increase in provision for warranty costs for completed works	**20**	-	***169***
Increase in provision for contingent loss	**639**	-	***5,410***
Interest and dividend income	**(278)**	(251)	***(2,353)***
Interest expense	**234**	327	***1,982***
Exchange gain	**(50)**	(153)	***(423)***
Equity in income of unconsolidated subsidiaries and affiliates	**(504)**	(120)	***(4,270)***
Gain on change in shareholding in consolidated subsidiary	**-**	(25)	***-***
Net gain on sale of investments in securities	**(18)**	(576)	***(152)***
Loss on write-down of investments in securities	**22**	0	***189***
Gain on redemption of investment in affiliate	**(128)**	-	***(1,087)***
Gain on sale of property, plant and equipment, net	**(199)**	(33)	***(1,687)***
Loss on disposal of property, plant and equipment	**62**	89	***528***
(Increase) decrease in notes and accounts receivables	**(759)**	2,128	***(6,427)***
Increase in inventories	**(3,391)**	(939)	***(28,713)***
Increase in accrued income	**(884)**	-	***(7,483)***
Increase (decrease) in notes and accounts payable	**(326)**	386	***(2,760)***
Increase in advances from customers	**2,513**	2,571	***21,282***
Other	**118**	(12)	***992***
Sub total	**850**	7,684	***7,197***
Interest and dividend income received	**286**	258	***2,422***
Interest expense paid	**(228)**	(322)	***(1,929)***
Income taxes paid	**(454)**	(161)	***(3,844)***
Net cash provided by operating activities	**454**	7,459	***3,846***
Cash Flows from Investing Activities:			
(Increase) decrease in time deposits (over 3-month term)	**(40)**	(66)	***(339)***
Payments for purchase of property, plant and equipment	**(2,563)**	(1,672)	***(21,705)***
Proceeds from sales of property, plant and equipment	**327**	46	***2,768***
Payments for purchase of investments in securities	**(56)**	(512)	***(475)***
Proceeds from sales of investments in securities	**683**	1,153	***5,782***
Proceeds from redemption of preferred investment bond	**-**	1,130	***-***
Payment for purchase of investment in consolidated subsidiary	**(29)**	-	***(246)***
Proceeds from redemption of investment in affiliate	**232**	-	***1,968***
Proceeds from clearing of consolidated subsidiary	**45**	-	***381***
Payment for purchase of goodwill of affiliate	**-**	(200)	***-***
Decrease in long-term loans receivable	**182**	362	***1,540***
Increase in long-term prepaid expenses	**(1,180)**	(829)	***(9,993)***
Proceeds from investment in capital	**-**	147	***-***
Other	**14**	240	***123***
Net cash provided used in investing activities	**(2,385)**	(201)	***(20,196)***
Cash Flows from Financing Activities:			
Increase (decrease) in short-term debt, net	**271**	(2,271)	***2,291***
Proceeds from long-term debt	**2,696**	3,110	***22,828***
Repayment of long-term debt	**(2,056)**	(4,876)	***(17,409)***
Capital dividend paid	**(277)**	-	***(2,345)***
Other	**(21)**	(13)	***(174)***
Net cash provided by (used in) financing activities	**613**	(4,050)	***5,191***
Effect of Exchange Rate Changes on Cash and Cash Equivalents	**31**	85	***266***
Net Increase (Decrease) in Cash and Cash Equivalents	**(1,287)**	3,293	***(10,893)***
Cash and Cash Equivalents at Beginning of Year	**9,768**	6,475	***82,715***
Decrease in Cash and Cash Equivalents owing to decrease in number of consolidated subsidiaries (Note 3)	**(82)**	-	***(695)***
Cash and Cash Equivalents at End of Year (Note 5)	**¥8,399**	¥9,768	***$71,127***

The accompanying notes are an integral part of the consolidated financial statements.

Notes to the Consolidated Financial Statements

For the years ended March 31, 2007 and 2006

1. Basis of Presenting the Consolidated Financial Statements

The accompanying consolidated financial statements of Toyo Kanetsu Kabushiki Kaisha (the "Company") and its subsidiaries (collectively, the "Companies") 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. The accounts of overseas consolidated subsidiaries are based on their financial statements prepared in conformity with generally accepted accounting principles and practices prevailing in the respective countries in which the subsidiaries are incorporated.

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

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

Effective from the year ended March 31, 2007, the Company has applied "Accounting standards for presentation of net assets in the balance sheet (Accounting Standards Board of Japan Statement No.5)", and "Implementation guidance for Accounting standards for presentation of net assets in the balance sheet (Accounting Standards of Japan Guidance No.8)" both issued by the Accounting Standards Board of Japan on December 9, 2005.
The amounts corresponding to the conventional "Shareholders' equity" in the balance sheet is ¥31,950 million ($270,557 thousand).
"Net assets" in the balance sheet for this year is presented according to the revision of "Regulations concerning the Terminology, Form and Presentation Methods of Consolidated Financial Statements" dated on April 25, 2006.

3. Summary of Significant Accounting Policies

(1) Principles of Consolidation and Investments in Affiliated Companies
The consolidated financial statements include the accounts of the Company and those of its subsidiaries in which it has control. The consolidated financial statements include, with the exception of subsidiaries that are not material, the accounts of its eight subsidiaries (nine subsidiaries in 2006). All significant inter-company transactions and accounts and unrealized inter-company profits are eliminated on consolidation.

Investments in unconsolidated subsidiaries and affiliated companies in which the Company has significant influence are accounted for under the equity method. These unconsolidated subsidiaries and affiliated companies to which the equity method is applied total five at March 31, 2007 and five at March 31, 2006. Consolidated net income includes the Company's equity in the current earnings of those companies after elimination of unrealized inter-company profits.

The excess of the cost over the underlying net equity of investments in consolidated subsidiaries as well as companies accounted for on an equity basis, is deferred and amortized on a straight-line basis over a period of five years from the date of acquisition.

Three subsidiaries were consolidated on the basis of their fiscal years ended at December 31, 2006 and four subsidiaries were consolidated on the basis of their fiscal years ended at December 31, 2005. Owing to the clearing of TKK Engineering Pty. Ltd. in the fiscal year ended at December 31, 2006, the numbers of consolidated subsidiaries were decreased. Material differences in inter-company transactions and accounts arising from the use of the different fiscal year ends are appropriately adjusted for on consolidation.

The subsidiary, Toyo Kanetsu Singapore Pte. Ltd., which was established in the fiscal year ended at December 31, 2006, has not been included in both consolidated subsidiaries and companies accounted for on an equity basis, because that company has an immaterial impact on the consolidated financial statements.

(2) Revaluation of Assets and Liabilities of the Subsidiaries
All assets and liabilities of the subsidiaries are fair valued as of the date of acquisition of control.

(3) Cash and Cash Equivalents
Cash and cash equivalents in the consolidated statements of cash flows are composed of cash on hand, bank deposits able to be withdrawn on demand and short-term investments with an original maturity of three months or less and which represent a minor risk of fluctuation in value.

(4) Allowance for Doubtful Accounts
The allowance for doubtful accounts is provided at an amount for losses which are expected to occur but cannot be determined on a item-by-item or group basis. This general allowance is calculated using historical write-off experience from prior periods. In addition, an amount for expected losses on individual uncollectible receivables is calculated based on management’s estimate.

(5) Inventories
Inventories are valued at cost as determined by the following methods:

Raw materials……………………….Weighted average method
Work in process and supplies ……… Accumulated materials and production cost

(6) Financial Instruments
(a) Derivatives
All derivatives are stated at fair value except for certain derivatives that are designated as "hedging instruments" (see (c) Hedge Accounting below).

(b) Investments in Securities
Securities held by the Company and its subsidiaries are classified into two categories:

“Investments of the Company in equity securities issued by unconsolidated subsidiaries and affiliates” are accounted for by the equity method.

Other investments in debt and equity securities are classified as “Other securities”. The adoption of mark-to-market accounting for “Other securities” with market quotations becomes effective for the year ended March 31, 2007. As a result of this change, “Other securities” with market quotations are stated at fair value with any unrealized holding gains and losses, net of tax, being reported in Shareholders’ equity or Changes in Net Assets as “Net unrealized holding gains or losses on investment securities”. “Other securities” without market quotations are stated at cost. “Other securities” which have the characteristics of cash equivalents are presented as Marketable Securities (current) while the remainder of “Other securities” are presented as Investments in Securities (non-current). The costs of “Other securities” sold are determined by the weighted average method.

(c) Hedge Accounting
Gains or losses arising from changes in the fair value of the derivatives designated as "hedging instruments" are deferred as an asset or liability and included in net assets in the same period during which the gains and losses on the hedged items or transactions are recognized. However, in cases where forward exchange contracts used as hedges meet certain hedging criteria, the existing foreign currency receivables or payables are translated at their contract rates. In addition, if interest rate swap contracts or currency swap contracts meet certain hedging criteria, the net amount to be paid or received under these swap contracts is added to or deducted from the interest on the related hedged liabilities.

Derivatives designated as hedging instruments by the Company are principally interest swaps, currency swaps, and forward exchange contracts. The related hedged items are trade accounts receivable and payable, and long-term bank loans.

The Company has a policy for utilizing the above hedging instruments in order to reduce the Company's exposure to the risk of foreign exchange and interest rate fluctuations. Thus, the Company's purchases of hedging instruments are limited to, at maximum, the amounts of the related 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 beginning from the commencement of the hedges.

(7) Property, Plant and Equipment
Property, plant and equipment are stated at cost. The cost of maintenance, repairs and minor renewals is charged to current operations; major renewals and enhancements are capitalized. Depreciation is mainly computed using the declining-balance method, except for buildings acquired after April 1, 1998, to which the straight-line method is applied for the Company and its domestic subsidiaries. The principal estimated useful lives range from 3 to 50 years for buildings and from 10 to 15 years for machinery and equipment. Depreciation of overseas subsidiaries is computed using the straight-line method.

(8) Revaluation of Land
In accordance with the “Law on Land Revaluation” issued on March 31, 1998 and the “Law Related to the Revision of the Law of Land Revaluation” issued on March 31, 2001, the Company revalued its business-purpose land. Of the revaluation difference, the amount related to tax is recognized as a deferred tax liability and the revaluation difference, net of tax, is recognized as a component of shareholders’ equity.

Method of the revaluation
The revaluation was performed based on the fixed asset tax revaluation amount set in the “Law on Land Revaluation” No.2 article 3, and is calculated based on land prices set in the “Law on Land Revaluation” No.2 article 4, with certain reasonable adjustments as follows:

Date of the revaluation:	March 31, 2002
Land value before revaluation:	¥7,189 million
Land value after revaluation:	¥ 10,844 million

The excess of the book value over the current market value of such revalued land held at March 31, 2007 amounted to ¥3,978 million ($33,683 thousand).

(9) Intangible Assets
Amortization of intangible assets is computed using the straight-line method. Software for internal use is amortized over its expected useful life (5 years), on a straight-line basis.

(10) Reserve for losses on work in progress
A reserve for losses on work in progress is provided based on an estimate of the total losses which can be anticipated for the next fiscal year and beyond in respect of construction projects on which eventual losses are deemed inevitable and amounts thereof can reasonably be estimated.

(11) Reserve for warranty costs for completed works
A reserve for warranty costs for completed works is provided based on the past experience rates for warranty costs and after-sales service costs for completed works on a item-by-item or group basis.

(12) Reserve for contingent loss
A reserve for contingent loss is provided at the amount which can be reasonably estimated according to the occurrence of contingency and considering the risks of each contingency.

(13) Income Taxes
The income taxes of the Company and its domestic subsidiaries consist of corporate income taxes, local inhabitants' taxes and enterprise taxes.

Income taxes are determined using the asset and liability approach, whereby deferred tax assets and liabilities are recognized in respect of temporary differences between the tax base of assets and liabilities and those as reported in the consolidated financial statements.

(14) Accrued Bonuses
Accrued bonuses to employees are provided for at the estimated amounts which the Company and its consolidated subsidiaries are obligated to pay to employees after the fiscal year-end, based on services provided during the current period.

(15) Accrued Retirement Benefits for Employees
Accrued retirement benefits to employees of the Company and its major consolidated subsidiaries are provided based on the estimated present value of projected benefit obligations and fair value of funded plan assets. For other insignificant consolidated subsidiaries, accrued retirement benefits to employees are calculated using the simplified method. The amount of actuarial gains (losses) is amortized on a straight-line basis over five years and recognized as deductions from expenses or included in expenses, respectively, in the next fiscal year. Prior service cost is recognized as deductions from expenses or included in expenses, respectively, in the year of occurrence.

(Changes in accounting method)
The Company and its consolidated subsidiaries had previously amortized any actuarial differences in the year of occurrence. The actuarial differences that arise from the differences between the expected rate of investment and the actual rate of investment can create large fluctuations on Operating Income each fiscal year.
Therefore, from the year ended at March 31, 2007, the Company and its consolidated subsidiaries has adopted the amortization of actuarial differences based on the straight-line basis over five years instead of amortizing the full value of the actuarial difference in the year of occurrence.
As a result of this change, Operating Income, Income before special items and Income before income taxes and minority interests have decreased respectively by ¥34 million ($286 thousand) as compared with the calculation using the former method.

(16) Accrued Retirement Benefits for Directors and Corporate Auditors
Accrued retirement benefits for directors and corporate auditors of the Company and its subsidiaries are provided for in accordance with the Companies' established policies on the accrual basis.

(17) Accounting for Finance Leases
Leases that transfer substantially all the risks and rewards of ownership of the assets are accounted for as capital leases. Leases not transferring ownership of the assets at the end of the lease term are accounted for as operating leases, in accordance with accounting principles and practices generally accepted in Japan.

(18) Depreciation of Leased Assets
Leased assets are depreciated over the term of the lease on a straight-line basis.

(Change in accounting method and the term of depreciation)
From the year ended March 31, 2006, the method of depreciating the leased assets has been changed to the straight-line method over the term of the lease from the declining-balance method over the estimated economic useful life. As a result of this change, Selling, General and Administrative Expenses of segment " Other " has decreased by ¥20 million ($166 thousand), and Operating Income of that segment has increased by the same amount, as compared with the calculation using the former method.
The ¥20 million decrease in Selling, General and Administrative Expenses resulted from a decrease of ¥179 million ($1,521 thousand) in change in accounting method, and an increase of ¥159 million ($1,355 thousand) in change in term of depreciation.

(19) Revenue Recognition
The Company uses the percentage-of-completion method for the recognition of sales and gross profit in respect of certain contracts that take more than one year to complete. In all other cases, sales and gross profit are recorded when the relevant items are completed or delivered. One consolidated subsidiary recognizes revenue on the installment basis.

(20) Earnings Per Share
The computation of net income per common share is based on the weighted average number of outstanding shares of common stock.

(21) Accounting standard for impairment of fixed assets
On August 9, 2002, the Business Accounting Council in Japan issued "Accounting Standard for Impairment of Fixed Assets". The standard requires that fixed assets be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. An impairment loss is recognized in the income statement by reducing the carrying amount of impaired assets or a group of assets to the recoverable amount to be measured as the higher of net selling price and value in use.

The effect of adopting "Accounting Standard for Impairment of Fixed Assets" on Income before income taxes and minority interests was ¥895 million ($7,622 thousand) at March 31, 2006.

4. United States Dollar Amounts

Amounts in U.S. dollars are included solely for the convenience of readers outside Japan. The rate of ¥118.09=U.S. $1.00, the approximate rate of exchange prevailing at March 31, 2007, has been used in the translation. The inclusion of such amounts are not intended to imply that the Japanese yen has been or could be readily converted, realized or settled in U.S. dollars at this rate or any other rates.

5. Cash and Cash Equivalents

Cash and Cash Equivalents as at March 31, 2007 and 2006 consisted of:

	Millions of yen		*Thousands of U.S. dollars*
March 31	**2007**	2006	***2007***
Cash on hand and at bank	**¥7,138**	¥7,966	***$60,445***
Time deposits, over 3-month term	**(236)**	(196)	***(1,999)***
Short-term investments included in marketable securities	**1,499**	2,000	***12,695***
Other	**(2)**	(2)	***(14)***
Cash and cash equivalents	**¥8,399**	¥9,768	***$71,127***

6. Marketable Securities

Marketable securities as at March 31, 2007 and 2006 were as follows:

	Millions of yen		*Thousands of U.S. dollars*
March 31	**2007**	2006	***2007***
Commercial paper	**¥1,499**	¥2,000	***$12,695***

7. Inventories

Inventories as at March 31, 2007 and 2006 were as follows:

March 31	Millions of yen 2007	Millions of yen 2006	*Thousands of U.S. dollars 2007*
Work in process	**¥ 9,355**	¥ 6,166	***$79,222***
Other	**798**	596	***6,755***
	¥10,153	¥6,762	***$85,977***

8. Investments in Securities

Investments in securities as at March 31, 2007 and 2006 were as follows:

March 31	Millions of yen 2007	Millions of yen 2006	*Thousands of U.S. dollars 2007*
Listed equity securities and bonds	**¥15,657**	¥18,669	***$132,586***
Unlisted equity securities and bonds	**2,128**	2,336	***18,022***
	¥17,785	¥21,005	***$150,608***
Investments in unconsolidated subsidiaries and affiliates included in investments in securities	**¥1,354**	¥1,537	***$11,466***

The aggregate acquisition cost, gross unrealized gains and losses and carrying amount on the balance sheet of other securities with market quotations at March 31, 2007 and 2006 were as follows:

	At March 31, 2007			
	Millions of yen			
	Acquisition cost	Unrealized gains	Unrealized losses	Carrying amount
Equity securities	**¥2,986**	**¥12,671**	**-**	**¥15,657**
Bonds	**-**	**-**	**-**	**-**
Other	**-**	**-**	**-**	**-**
Total	**¥2,986**	**¥12,671**	**-**	**¥15,657**

	At March 31, 2006			
	Millions of yen			
	Acquisition cost	Unrealized gains	Unrealized losses	Carrying amount
Equity securities	¥2,983	¥15,183	-	¥18,166
Bonds	-	-	-	-
Other	500	3	-	503
Total	¥3,483	¥15,186	-	¥18,669

	At March 31, 2007			
	Thousands of U.S. dollars			
	Acquisition cost	*Unrealized gains*	*Unrealized losses*	*Carrying amount*
Equity securities	***$25,283***	***$107,303***	***-***	***$132,586***
Bonds	*-*	*-*	*-*	*-*
Other	*-*	*-*	*-*	*-*
Total	***$25,283***	***$107,303***	***-***	***$132,586***

The Company writes down the book value of other securities when the market value declines by more than 50%, or the market value declines by more than 30% but less than 50% and the Company management determines the decline to be other than temporary.

Proceeds from sale of other securities were ¥570 million ($4,824 thousand) and ¥1,153 million for the years ended March 31, 2007 and 2006, respectively. On those sales, gross realized gains were ¥18 million ($152 thousand) and ¥568 million for the years ended March 31, 2007 and 2006, respectively. Gross realized losses were ¥0 million ($0 thousand) and ¥0 million for the years ended March 31, 2007 and 2006, respectively.

9. Short-Term Debt and Long-Term Debt

Short-term debt consists principally of a bank overdraft, bearing interest at a weighted average annual rate of 3.3% and 3.8% at March 31, 2007 and 2006, respectively.

Short-term debt as at March 31, 2007 and 2006 were as follows:

	Millions of yen		*Thousands of U.S. dollars*
March 31	**2007**	2006	***2007***
Bank overdraft			
Secured	**¥1,169**	¥1,938	***$9,901***
Unsecured	**1,599**	559	***13,535***
Current portion of long-term debt	**2,093**	2,156	***17,726***
	¥4,861	¥4,653	***$41,162***

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

	Millions of yen		*Thousands of U.S. dollars*
March 31	**2007**	2006	***2007***
Payable to domestic banks, insurance companies and other, with interest rates shown below (* 1)			
Secured	**¥675**	¥975	***$5,716***
Unsecured	**5,779**	4,832	***48,936***
	6,454	5,807	***54,652***
Less: Current portion of long-term debt	**(2,093)**	(2,156)	***(17,726)***
	¥4,361	¥3,651	***$36,926***

March 31	**2007**	2006
(*1) Interest rates	**1.0% to 3.0%**	1.3 % to 3.0 %

Annual maturities of long-term debt at March 31, 2007 were as follows:

Year ending on March 31,	Millions of yen	*Thousands of U.S. dollars*
2008	¥2,093	*$17,726*
2009	1,507	*12,760*
2010	1,814	*15,360*
2011	779	*6,595*
2012 and thereafter	261	*2,211*
	¥6,454	*$54,652*

Assets pledged as collateral for short-term debt and long-term debt as at March 31, 2007 and 2006 were as follows:

	Millions of yen		*Thousands of U.S. dollars*
March 31	**2007**	2006	***2007***
Investments in securities	**¥838**	¥5,035	***$7,090***
Buildings (at net book value)	**663**	1,409	***5,616***
Machinery (at net book value)	**23**	27	***197***
Land	**5,459**	6,372	***46,227***
	¥6,983	¥12,843	***$59,130***

10. Retirement Benefits Plan

The Company and its consolidated subsidiary, TKSL, had adopted the defined contribution pension plans and the lump-sum severance payment plans based on the cash balance plans. The portion of the lump-sum retirement payment plans was shifted to the defined benefits pension plans from February 1, 2007.

Certain consolidated subsidiaries have the lump-sum retirement payment plans, the defined contribution pension plans or the qualifying retirement pension funds.
The Company and five domestic consolidated subsidiaries have the employee’s pension fund.

The accrued retirement benefits as of March 31, 2007 and 2006 were analyzed as follows:

	Millions of yen		*Thousands of U.S. dollars*
	2007	2006	***2007***
Projected benefit obligations	**¥(3,465)**	¥(3,531)	***$(29,344)***
Plan assets	**1,140**	5	***9,660***
Net unreserved projected benefit obligations	**(2,325)**	(3,526)	***(19,684)***
Unrecognized actuarial differences	**(28)**	-	***(240)***
Accrued retirement benefits recognized in balance sheets	**¥(2,353)**	¥(3,526)	***$(19,924)***

Net pension and severance costs related to the retirement benefit plans for the years ended March 31, 2007 and 2006 were as follows:

	Millions of yen		*Thousands of U.S. dollars*
	2007	2006	***2007***
Service costs	**¥157**	¥166	***$1,326***
Interest cost	**52**	58	***442***
Expected return on plan assets	**-**	-	-
Net amortization	**-**	(57)	-
Amortization of prior service costs	**(83)**	-	***(701)***
Transfer to defined contribution pension plans	**50**	49	***420***
Net pension and severance costs	**¥176**	¥216	***$1,487***

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

	As of March 31	
	2007	2006
Discount rate	**1.5 %**	1.5 %
Expected rate of return on plan assets	**1.0 %**	—
Method of attributing the projected benefit obligations to periods of service	**Straight- line basis**	Straight- line basis
Amortization of prior service cost	**Expensed in the year of occurrence**	Expensed in the year of occurrence
Amortization of unrecognized actuarial differences	**5 years**	Expensed in the year of occurrence

11. Income Taxes

The Company and its domestic subsidiaries are subject to several taxes based on income, which in the aggregate resulted in the statutory income tax rate of approximately 40.69% for the years ended March 31, 2007 and 2006. Foreign subsidiaries are subject to income taxes of the countries in which they operate.

The reconciliation of the statutory income tax rate to the effective income tax rate for the years ended March 31, 2007 and 2006 were as follows:

	2007	2006
Statutory income tax rate	**40.69%**	40.69%
Reconciliation		
Valuation allowance	**(34.11)**	27.41
Nondeductible expenses	**13.04**	12.42
Tax losses carried forward	**(42.31)**	(65.39)
Equity in earnings of subsidiaries and affiliates	**(9.96)**	—
Other	**(5.52)**	(0.93)
Effective income tax rate	**(38.17)%**	14.20%

At March 31, 2007 and 2006, significant components of deferred tax assets and liabilities were as follows:

	Millions of yen		*Thousands of U.S. dollars*
	2007	2006	***2007***
Deferred tax assets			
Tax losses carried forward	**¥3,773**	¥4,496	***$31,953***
Accrued enterprise tax	**20**	66	***173***
Accrued severance and pension costs for employees	**954**	1,433	***8,080***
Accrued bonuses	**83**	73	***702***
Allowance for doubtful accounts	**289**	928	***2,449***
Reserve for losses on work in progress	**251**	87	***2,129***
Accrued severance and pension costs for directors and corporate auditors	**58**	41	***487***
Reserve for contingent loss	**260**	-	***2,201***
Loss on write-down of investments	**481**	413	***4,071***
Loss on write-down of inventories	**17**	15	***140***
Impairment losses on fixed assets	**421**	408	***3,568***
Depreciation and amortization	**102**	84	***866***
Other	**220**	435	***1,858***
	6,929	8,479	***58,677***
Less: valuation allowance	**(5,935)**	(8,445)	***(50,257)***
Gross deferred tax assets	**994**	34	***8,420***
Deferred tax liabilities			
Deferred tax liabilities on revaluation of land	**2,174**	2,174	***18,410***
Net unrealized gains on investments in securities	**5,156**	6,179	***43,662***
Gross deferred tax liabilities	**¥7,330**	¥8,353	***$62,072***

12. Selling, General and Administrative Expenses

Selling, General and Administrative expenses for the years ended March 31, 2007 and 2006 comprised of the following:

	Millions of yen		*Thousands of U.S. dollars*
Year ended March 31	**2007**	2006	***2007***
Salaries and benefits	**¥1,167**	¥1,158	***$9,879***
Accrued bonuses	**201**	59	***1,701***
Pension and severance costs	**122**	159	***1,031***
Accrued retirement benefits for directors and corporate auditors	**39**	16	***333***
Allowance for doubtful accounts	**261**	32	***2,214***
Other	**1,951**	2,167	***16,523***
	¥3,741	¥3,591	***$31,681***

13. Research and Development Costs

Research and development costs charged to manufacturing costs and selling, general and administrative expenses for the years ended March 31, 2007 and 2006 were ¥270 million ($2,285 thousand) and ¥271 million, respectively.

14. Leases

A. Lessee

Leases that transfer substantially all the risks and rewards of ownership of the assets are accounted for as capital leases. Leases not transferring ownership of the assets at the end of the lease term are accounted for as operating leases, in accordance with accounting principles and practices generally accepted in Japan.

Leased assets under finance leases that do not transfer ownership of the leased assets at the end of the lease term, if capitalized, comprised of the following:

	At March 31, 2007		
	Millions of yen		
	Acquisition cost	Accumulated Depreciation	Net book value
Machinery, equipment and delivery equipment	**¥736**	**¥556**	**¥180**
Tools, furniture and fixtures	**2,222**	**1,749**	**473**
Total	**¥2,958**	**¥2,305**	**¥653**

	At March 31, 2006		
	Millions of yen		
	Acquisition cost	Accumulated depreciation	Net book value
Machinery, equipment and delivery equipment	¥1,797	¥1,178	¥619
Tools, furniture and fixtures	2,255	1,335	920
Total	¥4,052	¥2,513	¥1,539

	At March 31, 2007		
	Thousands of U.S. dollars		
	Acquisition cost	*Accumulated Depreciation*	*Net book value*
Machinery, equipment and delivery equipment	***$6,226***	***$4,705***	***$1,521***
Tools, furniture and fixtures	***18,820***	***14,811***	***4,009***
Total	***$25,046***	***$19,516***	***$5,530***

The amounts of outstanding future lease payments due at March 31 including the portion of interest thereon are summarized as follows:

	Millions of yen		*Thousands of U.S. dollars*
March 31	**2007**	2006	***2007***
Future lease payment			
Within one year	**¥647**	¥762	***$5,485***
Over one year	**222**	870	***1,878***
	¥869	¥1,632	***$7,363***

Lease rental expense on such finance lease contracts for the years ended March 31, 2007 and 2006 were as follows:

	Millions of yen		*Thousands of U.S. dollars*
Year ended March 31	**2007**	2006	***2007***
Lease rental expense	**¥623**	¥807	***$5,278***
Depreciation	**576**	738	***4,879***
Interest expense	**31**	66	***259***

B. Lessor

Finance leases that do not transfer ownership of the leased property to lessor are accounted for as rental transactions.

Leased assets under financial leases comprise of the following:

	At March 31, 2007		
	Millions of yen		
	Acquisition cost	Accumulated Depreciation	Net book value
Buildings and structures	**¥2,082**	**¥1,679**	**¥403**
Machinery, equipment and delivery equipment	**1,077**	**581**	**496**
Tools, furniture and fixtures	**3,751**	**1,161**	**2,590**
Total	**¥6,910**	**¥3,421**	**¥3,489**

	At March 31, 2006		
	Millions of yen		
	Acquisition cost	Accumulated Depreciation	Net book value
Buildings and structures	¥2,083	¥1,340	¥743
Machinery, equipment and delivery equipment	1,247	743	504
Tools, furniture and fixtures	3,186	1,302	1,884
Total	¥6,516	¥3,385	¥3,131

	At March 31, 2007		
	Thousands of U.S. dollars		
	Acquisition cost	*Accumulated Depreciation*	*Net book value*
Buildings and structures	***$17,633***	***$14,224***	***$3,409***
Machinery, equipment and delivery equipment	***9,118***	***4,918***	***4,200***
Tools, furniture and fixtures	***31,765***	***9,832***	***21,933***
Total	***$58,516***	***$28,974***	***$29,542***

The amounts of outstanding future lease revenue due at March 31 including the portion of interest thereon are summarized as follows:

	Millions of yen		*Thousands of U.S. dollars*
March 31	**2007**	2006	***2007***
Future lease revenue			
Within one year	**¥1,819**	¥1,985	***$15,400***
Over one year	**3,581**	3,346	***30,327***
	¥5,400	¥5,331	***$45,727***

Lease rental revenue, depreciation and interest income equivalent on such finance lease contracts for the years ended March 31, 2007 and 2006 were as follows:

	Millions of yen		*Thousands of U.S. dollars*
Year ended March 31	**2007**	2006	***2007***
Lease rental revenue	**¥2,218**	¥1,963	***$18,786***
Depreciation	**1,071**	981	***9,073***
Interest income	**1,147**	982	***9,713***

15. Derivative and Hedging Activities

The Companies use forward currency exchange contracts to hedge against the exchange rate risk associated with monetary receivables and payables denominated in foreign currencies. Interest rate swap transactions or currency swap transactions is used in order to minimize the risk of fluctuation in interest rates on borrowings.

The Companies have established a control environment that includes policies and procedures for risk assessment and for the approval, reporting and monitoring of transactions involving derivative financial instruments. The Companies do not hold or issue derivative financial instruments for trading purposes.

The Companies are exposed to certain market risks arising from their forward exchange contracts and swap agreements. The Companies are also exposed to the risk of credit loss in the event of non-performance by the counterparties to the currency and interest; however, the Companies do not anticipate non-performance by any of these counterparties, all of whom are financial institutions with high credit ratings.

16. Commitments and Contingent Liabilities

As at March 31, 2007, the Companies were contingently liable for notes receivable discounted and endorsed and guarantees of loans made to unconsolidated subsidiaries and affiliates as follows:

March 31, 2007	Millions of yen	*Thousands of U.S. dollars*
Guarantees of loans from banks	**¥ 1,642**	***$13,908***

17. Segment Information

(1) Industry Segment Information

The operations of the Company and its consolidated subsidiaries for the years ended March 31, 2007 and 2006 were summarized by product group as follows:

	Millions of yen							
Year ended March 31, 2007	Material Handling Systems Division	Plant & Machinery Division	Building Construction Division	Real Estate Utilizing Division	Other	Sub Total	Elimination or Corporate Assets*	Consolidated Total
Sales								
Sales to external customers	**¥17,316**	**¥17,029**	**¥5,944**	**¥521**	**¥4,738**	**¥45,548**	**¥ -**	**¥ 45,548**
Inter-segment sales	**84**	**-**	**(1)**	**138**	**870**	**1,091**	**(1,091)**	**-**
Total	**17,400**	**17,029**	**5,943**	**659**	**5,608**	**46,639**	**(1,091)**	**45,548**
Operating costs and expenses	**16,696**	**15,935**	**5,799**	**413**	**5,569**	**44,412**	**(751)**	**43,661**
Operating income	**704**	**1,094**	**144**	**246**	**39**	**2,227**	**(340)**	**1,887**
Assets	**12,036**	**17,579**	**13,336**	**4,766**	**10,128**	**57,845**	**11,157**	**69,002**
Depreciation	**141**	**122**	**9**	**125**	**1,102**	**1,499**	**17**	**1,516**
Capital expenditure	**264**	**324**	**54**	**27**	**1,607**	**2,276**	**(13)**	**2,263**

	Millions of yen						
Year ended March 31, 2006	Material Handling Systems Division	Plant & Machinery Division	Building Construction Division	Other	Sub Total	Elimination or Corporate Assets*	Consolidated Total
Sales							
Sales to external customers	¥20,909	¥14,643	¥5,668	¥4,310	¥45,530	¥ -	¥ 45,530
Inter-segment sales	-	-	(1)	959	958	(958)	-
Total	20,909	14,643	5,667	5,269	46,488	(958)	45,530
Operating costs and expenses	19,566	14,094	5,570	5,115	44,345	(719)	43,626
Operating income	1,343	549	97	154	2,143	(239)	1,904
Assets	15,933	11,136	14,744	11,009	52,822	14,318	67,140
Depreciation	211	117	16	1,181	1,525	26	1,551
Impairment losses on fixed assets	-	-	-	269	269	626	895
Capital expenditure	29	401	37	2,129	2,596	52	2,648

* Corporate assets consist of cash on hand and at bank, investments in securities and the assets belonging to the administration department of the Company. Corporate assets at March 31, 2007 and 2006 were ¥12,248 million ($ 103,715 thousand) and ¥15,737 million, respectively.

	Thousands of U.S. dollars							
Year ended March 31, 2007	*Material Handling Systems Division*	*Plant & Machinery Division*	*Building Construction Division*	*Real Estate Utilizing Division*	*Other*	*Sub Total*	*Elimination or Corporate Assets**	*Consolidated Total*
Sales								
Sales to external customers	***$146,637***	***$144,204***	***$50,333***	***$4,412***	***$40,117***	***$385,703***	***$ -***	***$385,703***
Inter-segment sales	***713***	***-***	***(10)***	***1,166***	***7,367***	***9,236***	***(9,236)***	***-***
Total	***147,350***	***144,204***	***50,323***	***5,578***	***47,484***	***394,939***	***(9,236)***	***385,703***
Operating costs and expenses	***141,383***	***134,937***	***49,110***	***3,496***	***47,158***	***376,084***	***(6,356)***	***369,728***
Operating income	***5,967***	***9,267***	***1,213***	***2,082***	***326***	***18,855***	***(2,880)***	***15,975***
Assets	***101,922***	***148,861***	***112,928***	***40,359***	***85,771***	***489,841***	***94,477***	***584,318***
Depreciation	***1,194***	***1,033***	***74***	***1,062***	***9,329***	***12,692***	***148***	***12,840***
Capital expenditure	***2,235***	***2,744***	***458***	***225***	***13,612***	***19,274***	***(107)***	***19,167***

(2) Geographical Segment Information

Segment information classified by geographic area was omitted because the majority of the Companies' operations are conducted in Japan.

(3) Export sales and sales by overseas subsidiaries

	Millions of yen			
Year ended March 31, 2007	South-east Asia	Middle East	Other	Total
Overseas sales	**¥7,713**	**¥4,822**	**¥1,718**	**¥14,253**
Consolidated Sales	**-**	**-**	**-**	**¥45,548**
Ratio	**16.9%**	**10.6%**	**3.8%**	**31.3%**

	Millions of yen			
Year ended March 31, 2006	South-east Asia	Middle East	Other	Total
Overseas sales	¥5,953	¥1,907	¥1,851	¥9,711
Consolidated sales	-	-	-	¥45,530
Ratio	13.1%	4.2%	4.0%	21.3%

	Thousand of U.S. dollars			
Year ended March 31, 2007	*South -east Asia*	*Middle East*	*Other*	*Total*
Overseas sales	***$65,312***	***$40,831***	***$14,554***	***$120,697***
Consolidated sales	***-***	***-***	***-***	***$385,703***
Ratio	***16.9%***	***10.6%***	***3.8%***	***31.3%***

* Major countries included in the above geographic areas were as follows:
South-east Asia:….. Indonesia, Vietnam
Middle East:……….Yemen, Iran
Other: ……………..Trinidad and Tobago, China

18. Related Party Transactions

Material transactions of the Company with its related companies and individuals, excluding transactions with consolidated subsidiaries which are eliminated in the consolidated financial statements and other than those disclosed elsewhere in these financial statements, for the years ended March 31, 2007 and 2006 were as follows:

					Millions of yen / Thousands of U.S. dollars				
					Transactions		Resulting Accounting Balance		
					Year ended March 31			At March 31,	
Name of Related Company	Paid-in Capital	Principal Business	Equity Ownership Percentage by the Company	Description of the Company's Transactions	**2007**	2006	Account	**2007**	2006
Toyo Koken K.K.	¥897 million	Production and sale of electric-driven winches	39%	Loans made	-	-	Short-term loans	**¥113** ***$955***	¥113
					-	-	Long-term loans	**¥1,087** ***$9,205***	¥1,262
Toyo Miyama Co., Ltd.	¥100 million	Architectural business	49%	Guarantee obligation	**¥1,600** ***$13,549***	¥1,192			
Toyo Kanetsu (Malaysia) Sdn.Bhd.	MYR2,000 thousand	Material Handling Systems business	49%	Redemption of stock	**¥232** ***$1,968***				

The terms and conditions of the above transactions are on an arm's-length basis.

Misuzu Audit Corporation

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Report of Independent Auditors

To the Board of Directors and Shareholders of Toyo Kanetsu Kabushiki Kaisha

We have audited the accompanying consolidated balance sheets of Toyo Kanetsu Kabushiki Kaisha and its subsidiaries as of March 31, 2006 and 2007, and the related consolidated statements of operation, changes in net assets, and cash flows for the years then ended, all expressed in Japanese Yen. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to 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 consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated 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 Toyo Kanetsu Kabushiki Kaisha and its subsidiaries as of March 31, 2006 and 2007, 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.

As described in Note 3(21), effective for the year ended March 31, 2006, Toyo Kanetsu Kabushiki Kaisha and its subsidiaries adopted the accounting standards for impairment of fixed assets.

As described in Note 3(18), effective for the year ended March 31, 2006, Toyo Kanetsu Kabushiki Kaisha and its subsidiaries changed their accounting policy for the depreciation of leased assets to the straight-line method over the leasing term from the declining-balance method over the estimated economical useful life.

As described in Note 3(15), effective for the year ended March 31, 2007, Toyo Kanetsu Kabushiki Kaisha and its subsidiaries changed their accounting policy for relating to the amortization of actuarial differences.

The amounts expressed in U.S. dollars, which are provided solely for the convenience of the reader, have been translated on the basis set forth in Note 4 to the accompanying consolidated financial statements.

Misuzu Audit Corporation

Misuzu Audit Corporation
Tokyo, Japan
June 28, 2007

Corporate Data

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Fax: +81-3-5857-3170
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Date of Establishment
16th May, 1941

Common Stock

Par Value	: ¥50
Authorized	: 297,000,000
Issued	: 138,730,741

Security Traded
Tokyo Stock Exchange Market, 1st Section

Transfer Agent and Registrar
The Mitsubishi UFJ Trust and Banking Corporation
4-5, Marunouchi 1-Chome, Chiyoda-ku,
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Annual Meeting
The annual Meeting of Shareholders is normally held in June in Tokyo, Japan

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