

Japan Vilene Company, Ltd. and Consolidated Subsidiaries

Notes to Consolidated Financial Statements Years Ended March 31, 2006 and 2005

1. BASIS OF PRESENTING CONSOLIDATED FINANCIAL STATEMENTS

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

In preparing these consolidated financial statements, certain reclassifications and rearrangements have been made to the consolidated financial statements issued domestically in order to present them in a form which is more familiar to readers outside Japan. In addition, certain reclassifications and rearrangements have been made in the 2005 financial statements to conform to classifications and presentations used in 2006.

The consolidated financial statements are stated in Japanese yen, the currency of the country in which the Company is incorporated and operates. The translations of Japanese yen amounts into U.S. dollar amounts are included solely for the convenience of readers outside Japan and have been made at the rate of ¥117 to \$1, the approximate rate of exchange at March 31, 2006. Such translations should not be construed as representations that the Japanese yen amounts could be converted into U.S. dollars at that or any other rate.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Consolidation—The consolidated financial statements as of March 31, 2006 include the accounts of the Company and its 15 significant (17 in 2005) subsidiaries (together, the "Companies").

Under the control or influence concept, those companies in which the Company, directly or indirectly, is able to exercise control over operations are fully consolidated, and those companies over which the Companies have the ability to exercise significant influence are accounted for by the equity method.

Investments in 9 (8 in 2005) associated companies are accounted for by the equity method. Investments in the remaining associated companies are stated at cost. If the equity method of accounting had been applied to the investments in these companies, the effect on the accompanying consolidated financial statements would not be material.

The excess of cost of the Company's investments in consolidated subsidiaries and associated companies over its equity in the net assets at the respective dates of acquisition is being amortized over 5 years.

The accounts of foreign consolidated subsidiaries are included on the basis of their fiscal year end of December 31. All significant intercompany balances and transactions have been eliminated in consolidation. All material unrealized profits included in assets resulting from transactions within the Companies are eliminated.

Cash and Cash Equivalents—Cash equivalents are short-term investments that are readily convertible into cash and exposed to insignificant risk of changes in value. Cash equivalents include time deposits and certificate of deposits, all of which mature or become due within three months of the date of acquisition.

Inventories—Inventories of the Company are stated at average cost. Inventories of consolidated subsidiaries are stated at the latest purchase cost or at the lower of cost (first-in, first-out) or market.

Investment Securities—Investment securities are classified and accounted for, as available-for-sale securities, which are reported at fair value, with unrealized gains and losses, net of applicable taxes, reported as a separate component of shareholders' equity.

Non-marketable available-for-sale securities are mainly stated at cost determined by the moving-average method. For other than temporary declines in fair value, investment securities are reduced to net realizable value by a charge to income.

Property, Plant and Equipment—Property, plant and equipment are stated at cost. Significant renewals and additions are capitalized; maintenance and repairs are charged to income as incurred.

Depreciation of property, plant and equipment is principally computed by the declining-balance method except for buildings. The Company uses the straight-line method for depreciation of buildings. The domestic consolidated subsidiaries use the straight-line method for depreciation of buildings acquired after March 31, 1998. The declining-balance method was used for buildings acquired prior to April 1, 1998. Depreciation of property, plant and equipment of foreign consolidated subsidiaries is principally computed by the straight-line method.

The ranges of the estimated useful lives of the assets used for the computation of depreciation are as follows:

Buildings and structures	3 to 50 years
Machinery and equipment	2 to 12 years
Vehicles	2 to 7 years
Tools, furniture and fixtures	2 to 20 years

Long-lived Assets—In August 2002, the Business Accounting Council ("BAC") issued a Statement of Opinion, "Accounting for Impairment of Fixed Assets," and in October 2003 the Accounting Standards Board of Japan ("ASBJ") issued ASBJ Guidance No. 6, "Guidance for Accounting Standard for Impairment of Fixed Assets." These new pronouncements were effective for fiscal years beginning on or after April 1, 2005 with early adoption permitted for fiscal years ending on or after March 31, 2004.

The Companies adopted the new accounting standard for impairment of fixed assets as of April 1, 2005.

The Companies review its long-lived assets for impairment whenever events or changes in circumstance indicate the carrying amount of an asset or asset group may not be recoverable. An impairment loss would be recognized if the carrying amount of an asset or asset group exceeds the sum of the undiscounted future cash flows expected to result from the continued use and eventual disposition of the asset or asset group. The impairment loss would be measured as the amount by which the carrying amount of the asset exceeds its recoverable amount, which is the higher of the discounted cash flows from the continued use and eventual disposition of the asset or the net selling price at disposition. The effect of adoption of the new accounting standard for impairment of fixed assets was to decrease income before income taxes and minority interests for the year ended March 31, 2006 by ¥110 million (\$940 thousand).

Retirement and Pension Plans—Effective April 1, 2000, the Company and domestic consolidated subsidiaries adopted a new accounting standard for employees' retirement benefits and accounted for the liability for retirement benefits based on projected benefit obligations and plan assets at the balance sheet date.

The provision for retirement benefits to directors is made at the amount which would be paid in accordance with company bylaws if they retired at each balance sheet date. Such plan is not funded.

Effective April 1, 2005, the Company has shifted from a qualified retirement pension plan to a cash balance plan, which is a hybrid pension plan based on variable interest rates, enabling the Company to flexibly respond to market interest rate fluctuations. The related rules were revised in February 2005.

As mentioned above, prior to the general shareholders meeting held on June 29, 2005, the Company adopted retirement benefits for directors. However, they were abolished at that meeting as part of an amendment of the retirement benefits regulation for directors. As a result, the allowance for retirement benefits for directors as required under the plan has declined drastically. The accumulated amounts, which should be paid to directors in case of their retirement, are included in "Long-term liabilities—other" as of March 31, 2006.

Leases—All leases of the Companies are accounted for as operating leases. Under the Japanese accounting standard for leases, finance leases that deem to transfer ownership of the leased property to the lessee are to be capitalized, while other finance leases are permitted to be accounted for as operating lease transactions if certain "as if capitalized" information is disclosed in the notes to the lessee's financial statements.

Income Taxes—The provision for income taxes is computed based on the pretax income included in the consolidated statements of income. The asset and liability approach is used to recognize deferred tax assets and liabilities for the expected future tax consequences of temporary differences between the carrying amounts and the tax bases of assets and liabilities. Deferred taxes are measured by applying currently enacted tax laws to the temporary differences.

The Company and certain domestic subsidiaries file a tax return under the consolidated corporate-tax system from the fiscal year ended March 31, 2003, which allows companies to base tax payments on the combined profits or losses of the parent company and its wholly owned domestic subsidiaries.

Appropriations of Retained Earnings—Appropriations of retained earnings are reflected in the financial statements for the following year upon shareholders' approval. Payments of bonuses to directors as approved by the shareholders are accounted for as appropriations of retained earnings.

Translation of Foreign Currency Transactions—All short-term and long-term monetary receivables and payables denominated in foreign currencies are translated into Japanese yen at the current exchange rate at the balance sheet date. The foreign exchange gains and losses from translation are recognized in the consolidated statements of income to the extent that they are not hedged by forward exchange contracts. Forward exchange contracts are separately accounted for in accordance with the accounting standard for financial instruments.

Translation of Foreign Currency Financial Statements—The balance sheet accounts of the foreign consolidated subsidiaries are translated into Japanese yen at the current exchange rate at the balance sheet date except for shareholders' equity, which is translated at the historical rates. Differences arising from such translation were shown as "Foreign currency translation adjustments" in a separate component of shareholders' equity. Revenue and expense accounts of foreign consolidated subsidiaries and associated companies are translated into Japanese yen at the average rates of exchange. The accounts of the consolidated cash flow statements in foreign currencies are also translated at the average rates of exchange.

Derivatives and Hedging Activities—The Company uses derivative financial instruments to manage its exposures to fluctuations in foreign exchange and interest rates. Foreign exchange forward contracts and interest rate swap contracts are utilized by the Company to reduce foreign currency exchange and interest rate risks. The Company does not enter into derivatives for trading or speculative purposes.

Derivative financial instruments and foreign currency transactions are classified and accounted for as follows: (1) all derivatives are recognized as either assets or liabilities and measured at fair value, and gains or losses on derivative transactions are recognized in the statement of income and (2) for derivatives used for hedging purposes, if derivatives qualify for hedge accounting because of high correlation and effectiveness between the hedging instruments and the hedged items, gains or losses on derivatives are deferred until maturity of the hedged transactions.

The foreign currency forward contracts employed to hedge foreign exchange exposures for export sales and import purchases are measured at fair value and the unrealized gains or losses are recognized in income. Forward contracts designated as hedging forecasted (or committed) transactions are also measured at the fair value but the unrealized gains or losses are deferred until the underlying transactions are completed.

The interest rate swap contracts which qualify for hedge accounting and meet specific matching criteria are not remeasured at market value but the differential paid or received under the swap agreements is recognized and included in interest expense or income.

Per Share Information—Basic net income per share is computed by dividing net income available to common shareholders, by the weighted-average number of common shares outstanding for the period, retroactively adjusted for stock splits.

Diluted net income per share reflects the potential dilution that could occur if securities were exercised or converted into common stock.

Cash dividends per share presented in the accompanying consolidated statements of income are dividends of the Company applicable to the respective years including dividends to be paid after the end of the year.

New Accounting Pronouncements

Business combination and business separation—In October 2003, the BAC issued a Statement of Opinion, "Accounting for Business Combinations," and on December 27, 2005 the ASBJ issued "Accounting Standard for Business Separations" and ASBJ Guidance No. 10, "Guidance for Accounting Standard for Business Combinations and Business Separations." These new accounting pronouncements are effective for fiscal years beginning on or after April 1, 2006.

The accounting standard for business combinations allows companies to apply the pooling of interests method of accounting only when certain specific criteria are met such that the business combination is essentially regarded as a uniting-of-interests. These specific criteria are as follows:

- (a) the consideration for the business combination consists solely of common shares with voting rights,
- (b) the ratio of voting rights of each predecessor shareholder group after the business combination is nearly equal, and
- (c) there are no other factors that would indicate any control exerted by any shareholder group other than voting rights.

For business combinations that do not meet the uniting-of-interests criteria, the business combination is considered to be an acquisition and the purchase method of accounting is required. This standard also prescribes the accounting for combinations of entities under common control and for joint ventures. Goodwill, including negative goodwill, is to be systematically amortized over 20 years or less, but is also subject to an impairment test.

Under the accounting standard for business separations, in a business separation where the interests of the investor no longer continue and the investment is settled, the difference between the fair value of the consideration received for the transferred business and the book value of net assets transferred to the separated business is recognized as a gain or loss on business separation in the statement of income. In a business separation where the interests of the investor continue and the investment is not settled, no such gain or loss on business separation is recognized.

Stock options—On December 27, 2005, the ASBJ issued "Accounting Standard for Stock Options" and related guidance. The new standard and guidance are applicable to stock options newly granted on and after May 1, 2006.

This standard requires companies to recognize compensation expense for employee stock options based on the fair value at the date of grant and over the vesting period as consideration for receiving goods or services. The standard also requires companies to account for stock options granted to non-employees based on the fair value of either the stock option or the goods or services received. In the balance sheet, the stock option is presented as a stock acquisition right as a separate component of shareholders' equity until exercised. The standard covers equity-settled, share-based payment transactions, but does not cover cash-settled, share-based payment transactions. In addition, the standard allows unlisted companies to measure options at their intrinsic value if they cannot reliably estimate fair value.

Bonuses to directors and corporate auditors—Prior to the fiscal year ended March 31, 2005, bonuses to directors and corporate auditors were accounted for as a reduction of retained earnings in the fiscal year following approval at the general shareholders meeting. The ASBJ issued ASBJ Practical Issues Task Force (PITF) No. 13, "Accounting Treatment for Bonuses to Directors and Corporate Auditors," which encouraged companies to record bonuses to directors and corporate auditors on the accrual basis with a related charge to income, but still permitted the direct reduction of such bonuses from retained earnings after approval of the appropriation of retained earnings.

The ASBJ replaced the above accounting pronouncement by issuing a new accounting standard for bonuses to directors and corporate auditors on November 29, 2005. Under the new accounting standard, bonuses to directors and corporate auditors must be expensed and are no longer allowed to be directly charged to retained earnings. This accounting standard is effective for fiscal years ending on or after May 1, 2006. The companies must accrue bonuses to directors and corporate auditors at the year end to which such bonuses are attributable.

3. INVESTMENT SECURITIES

Investment securities at March 31, 2006 and 2005, consisted of the following:

	Millions of Japanese Yen		Thousands of U.S. Dollars
	<u>2006</u>	<u>2005</u>	<u>2006</u>
Non-current—Investment securities:			
Marketable equity securities	¥ 794	¥ 685	\$ 6,786
Investments in associated companies	6,503	5,082	55,581
Other	<u>232</u>	<u>233</u>	<u>1,983</u>
Total	<u>¥ 7,529</u>	<u>¥ 6,000</u>	<u>\$ 64,350</u>

Information regarding the securities classified as available-for-sale at March 31, 2006 and 2005, was as follows:

	Millions of Japanese Yen			
	<u>2006</u>			
	<u>Cost</u>	Unrealized <u>Gains</u>	Unrealized <u>Losses</u>	<u>Fair Value</u>
Securities classified as available-for-sale equity securities	¥ 440	¥ 354		¥ 794

	Thousands of U.S. Dollars			
	<u>2006</u>			
	<u>Cost</u>	Unrealized <u>Gains</u>	Unrealized <u>Losses</u>	<u>Fair Value</u>
Securities classified as available-for-sale equity securities	\$ 3,760	\$ 3,026		\$ 6,786

	Millions of Japanese Yen			
	<u>2005</u>			
	<u>Cost</u>	Unrealized <u>Gains</u>	Unrealized <u>Losses</u>	<u>Fair Value</u>
Securities classified as available-for-sale equity securities	¥ 443	¥ 242		¥ 685

Other investment securities whose fair value was not readily determinable as of March 31, 2006 and 2005, were as follows:

	Carrying Amount		Thousands of U.S. Dollars
	Millions of Japanese Yen		
	<u>2006</u>	<u>2005</u>	<u>2006</u>
Other investment securities:			
Associated companies	¥ 6,503	¥ 5,082	\$ 55,581
Other	<u>232</u>	<u>233</u>	<u>1,983</u>
Total	<u>¥ 6,735</u>	<u>¥ 5,315</u>	<u>\$ 57,564</u>

Proceeds from sales of available-for-sale securities for the years ended March 31, 2006 and 2005, were ¥120 million (\$1,026 thousand) and ¥140 million, respectively. Gross realized gains on these sales, computed on the moving average cost basis, were ¥73 million (\$624 thousand) for the year ended March 31, 2006 and ¥80 million for the year ended March 31, 2005. Gross realized losses on these sales, computed on the moving average cost basis, were ¥2 million (\$17 thousand) for the year ended March 31, 2006.

4. INVENTORIES

Inventories at March 31, 2006 and 2005, consisted of the following:

	Millions of Japanese Yen		Thousands of U.S. Dollars
	<u>2006</u>	<u>2005</u>	<u>2006</u>
Merchandise	¥ 1,037	¥ 995	\$ 8,863
Finished goods	3,059	2,827	26,146
Work in process	509	478	4,350
Raw materials and supplies	<u>1,482</u>	<u>1,273</u>	<u>12,667</u>
Total	<u>¥ 6,087</u>	<u>¥ 5,573</u>	<u>\$ 52,026</u>

5. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment at March 31, 2006 and 2005, consisted of the following:

	Millions of Japanese Yen		Thousands of U.S. Dollars
	<u>2006</u>	<u>2005</u>	<u>2006</u>
Land	¥ 4,272	¥ 4,254	\$ 36,513
Buildings and structures	20,671	20,075	176,675
Machinery and equipment	32,648	32,107	279,043
Vehicles	357	364	3,051
Tools, furniture and fixtures	5,512	5,304	47,111
Construction in progress	<u>446</u>	<u>159</u>	<u>3,812</u>
Total	<u>¥ 63,906</u>	<u>¥ 62,263</u>	<u>\$ 546,205</u>

Depreciation expense amounted to ¥1,913 million (\$16,350 thousand) and ¥2,002 million for the years ended March 31, 2006 and 2005, respectively.

6. LONG-LIVED ASSETS

The Companies reviewed its long-lived assets for impairment as of the year ended March 31, 2006 and, as a result, recognized an impairment loss of ¥110 million (\$940 thousand) as other expense for buildings and land held for sale due to a decline of market value, and the carrying amount of these buildings and land was written down to the recoverable amount. The recoverable amount of the buildings and land was measured at net selling price based on tax purpose valuations.

7. LEASES

The Companies lease certain office equipment and vehicles under long-term noncancelable lease agreements.

Total rental expenses for the years ended March 31, 2006 and 2005, were ¥749 million (\$6,402 thousand) and ¥843 million, respectively, including ¥55 million (\$470 thousand) and ¥84 million of lease payments under finance leases.

Pro forma information of leased property such as acquisition cost, accumulated depreciation and obligations under finance leases that do not transfer ownership of the leased property to the Companies on an "as if capitalized" basis as of March 31, 2006 and 2005, was as follows:

	Millions of Japanese Yen			Thousands of U.S. Dollars		
	2006			2006		
	Machinery and Equipment	Tools, Furniture and Fixtures	Total	Machinery and Equipment	Tools, Furniture and Fixtures	Total
Acquisition cost	¥ 108	¥ 129	¥ 237	\$ 923	\$ 1,103	\$ 2,026
Accumulated depreciation	<u>48</u>	<u>102</u>	<u>150</u>	<u>410</u>	<u>872</u>	<u>1,282</u>
Net leased property	<u>¥ 60</u>	<u>¥ 27</u>	<u>¥ 87</u>	<u>\$ 513</u>	<u>\$ 231</u>	<u>\$ 744</u>

	Millions of Japanese Yen			
	2005			
	Buildings and Structures	Machinery and Equipment	Tools, Furniture and Fixtures	Total
Acquisition cost	¥ 8	¥ 57	¥ 255	¥ 320
Accumulated depreciation	<u>7</u>	<u>38</u>	<u>191</u>	<u>236</u>
Net leased property	<u>¥ 1</u>	<u>¥ 19</u>	<u>¥ 64</u>	<u>¥ 84</u>

Future lease payments, including imputed interest, under finance leases that do not transfer ownership of the leased property and long-term noncancelable operating leases as of March 31, 2006 and 2005, were as follows:

	Millions of Japanese Yen				Thousands of U.S. Dollars	
	2006		2005		2006	
	Finance Lease	Operating Lease	Finance Lease	Operating Lease	Finance Lease	Operating Lease
Due within one year	¥ 29	¥ 47	¥ 52	¥ 21	\$ 248	\$ 402
Due after one year	<u>58</u>	<u>101</u>	<u>32</u>	<u>38</u>	<u>496</u>	<u>863</u>
Total	<u>¥ 87</u>	<u>¥ 148</u>	<u>¥ 84</u>	<u>¥ 59</u>	<u>\$ 744</u>	<u>\$ 1,265</u>

Depreciation expense which was not reflected in the consolidated statements of income, computed by the straight-line method, was ¥55 million (\$470 thousand) and ¥84 million for the years ended March 31, 2006 and 2005, respectively.

8. SHORT-TERM BANK LOANS AND LONG-TERM DEBT

Short-term bank loans represented borrowings under bank overdraft agreements and notes, bearing interest at rates ranging from 0.5% to 5.5% and from 0.5% to 3.4% per annum at March 31, 2006 and 2005, respectively.

Long-term debt at March 31, 2006 and 2005, consisted of the following:

	<u>Millions of Japanese Yen</u>		<u>Thousands of U.S. Dollars</u>
	<u>2006</u>	<u>2005</u>	<u>2006</u>
0.6% to 5.9% loans due through 2011:			
Collateralized	¥ 300	¥ 380	\$ 2,564
Unsecured	<u>2,523</u>	<u>2,431</u>	<u>21,564</u>
Total	2,823	2,811	24,128
Less current maturities	<u>(392)</u>	<u>(178)</u>	<u>(3,350)</u>
Total	<u>¥ 2,431</u>	<u>¥ 2,633</u>	<u>\$ 20,778</u>

Maturities of long-term debt at March 31, 2006, were as follows:

<u>Year Ending March 31</u>	<u>Millions of Japanese Yen</u>	<u>Thousands of U.S. Dollars</u>
2007	¥ 392	\$ 3,350
2008	2,205	18,846
2009	157	1,342
2010	66	564
2011	<u>3</u>	<u>26</u>
Total	<u>¥ 2,823</u>	<u>\$ 24,128</u>

The carrying amounts of assets pledged as collateral for long-term bank loans of ¥300 million (\$2,564 thousand) at March 31, 2006, were as follows:

	<u>Millions of Japanese Yen</u>	<u>Thousands of U.S. Dollars</u>
Land	¥ 208	\$ 1,778
Buildings and structures	3,567	30,487
Machinery and equipment	2,149	18,367
Vehicles	9	77
Tools, furniture and fixtures	<u>354</u>	<u>3,026</u>
Total	<u>¥ 6,287</u>	<u>\$ 53,735</u>

As is customary in Japan, loan agreements provide, under certain circumstances, that the Company shall provide additional collateral or guarantees for the present and future indebtedness immediately upon the banks' or other lenders' request. Basic agreements with banks also provide that the banks have the right to offset cash deposited with them against loans, or any other indebtedness outstanding, in the case of default or other similar events.

9. INCOME TAXES

Income taxes for the years ended March 31, 2006 and 2005, consisted of the following:

	Millions of Japanese Yen		Thousands of U.S. Dollars
	<u>2006</u>	<u>2005</u>	<u>2006</u>
Current:			
Domestic	¥ 799	¥ 762	\$ 6,829
Foreign	<u>157</u>	<u>16</u>	<u>1,342</u>
Total	<u>956</u>	<u>778</u>	<u>8,171</u>
Deferred:			
Domestic	190	(83)	1,624
Foreign	<u>152</u>	<u>203</u>	<u>1,299</u>
Total	<u>342</u>	<u>120</u>	<u>2,923</u>
Total	<u>¥ 1,298</u>	<u>¥ 898</u>	<u>\$ 11,094</u>

The Company and domestic consolidated subsidiaries are subject to a number of taxes based on income which, in the aggregate, resulted in a normal effective statutory tax rate of approximately 40.5% for 2006 and 2005. Foreign consolidated subsidiaries are subject to income taxes of the countries in which they operate.

The tax effects of significant temporary differences and loss carryforwards which resulted in deferred tax assets and liabilities at March 31, 2006 and 2005, were as follows:

	Millions of Japanese Yen		Thousands of U.S. Dollars
	<u>2006</u>	<u>2005</u>	<u>2006</u>
Deferred tax assets:			
Accrued bonuses	¥ 431	¥ 401	\$ 3,684
Liability for retirement benefits	1,466	1,635	12,530
Loss on write-down of investment securities	144	192	1,231
Loss on revaluation of long-lived assets	53	10	453
Loss on write-down of other investments	30	36	256
Tax loss carryforwards	21	148	180
Other	509	505	4,350
Less valuation allowance	<u>(192)</u>	<u>(150)</u>	<u>(1,641)</u>
Total deferred tax assets	<u>2,462</u>	<u>2,777</u>	<u>21,043</u>
Deferred tax liabilities:			
Unrealized gain on land transacted within the Companies	(301)	(301)	(2,573)
Unrealized gain on available-for-sale securities	(138)	(90)	(1,179)
Other	<u>(217)</u>	<u>(186)</u>	<u>(1,855)</u>
Total deferred tax liabilities	<u>(656)</u>	<u>(577)</u>	<u>(5,607)</u>
Net deferred tax assets	<u>¥ 1,806</u>	<u>¥ 2,200</u>	<u>\$ 15,436</u>

A reconciliation between the normal effective statutory tax rate and the actual effective tax rates reflected in the accompanying consolidated statements of income for the years ended March 31, 2006 and 2005, is as follows:

	<u>2006</u>	<u>2005</u>
Normal effective statutory tax rate	40.5 %	40.5 %
Expense not deductible for tax purposes	1.3	1.6
Valuation allowance	1.4	
Deductible loss carryforward of subsidiaries	(0.7)	(7.4)
Equity in earnings of associated companies	(5.5)	(4.7)
Correction amount of tax		1.6
Inhabitant tax—per capita	0.5	0.6
Credit for foreign taxes	(3.4)	(4.0)
Other—net	<u>(0.2)</u>	<u>(1.0)</u>
Actual effective tax rate	<u>33.9 %</u>	<u>27.2 %</u>

10. LIABILITY FOR RETIREMENT BENEFITS

Effective April 1, 2005, the Company amended its pension plan. The existing pension plan was transferred to a cash balance pension plan based on the Defined-Benefit Corporate Pension Law. The Company also adopted a point-method pension plan.

Some domestic consolidated subsidiaries have a tax qualified pension plan and a lump-sum retirement benefit plan as their defined benefit pension plan. A foreign consolidated subsidiary has a defined contribution pension plan. And in certain instances, the Company pays additional retirement benefits for employees. The cash balance plan adopted by the Company is a hybrid pension plan based on variable interest rates, enabling the Company to flexibly respond to market interest fluctuations. In addition, the Company contributes to the DAINIPPON INK pension funds under the cash balance plan.

The retirement benefits for directors are paid subject to the approval of the shareholders. With respect to the Company, the retirement benefits regulation for directors was abolished at the general shareholders meeting held on June 29, 2005. The accumulated amount to be paid in case of their retirement has been reclassified from "Liability for retirement benefits" into "Long-term liabilities—other" as of March 31, 2006.

Liability for retirement benefits at March 31, 2006 and 2005, consisted of the following:

	<u>Millions of Japanese Yen</u>		<u>Thousands of U.S. Dollars</u>
	<u>2006</u>	<u>2005</u>	<u>2006</u>
Employees' retirement benefit plans	¥ 3,634	¥ 4,068	\$ 31,060
Directors' plan	<u>56</u>	<u>282</u>	<u>478</u>
Total	<u>¥ 3,690</u>	<u>¥ 4,350</u>	<u>\$ 31,538</u>

The liability for employees' retirement benefits at March 31, 2006 and 2005, consisted of the following:

	Millions of Japanese Yen		Thousands of U.S. Dollars
	<u>2006</u>	<u>2005</u>	<u>2006</u>
Projected benefit obligations	¥ 15,554	¥ 15,430	\$ 132,940
Fair value of plan assets	(11,375)	(9,898)	(97,222)
Unrecognized prior service cost	1,421	1,808	12,145
Unrecognized actuarial loss	<u>(1,966)</u>	<u>(3,272)</u>	<u>(16,803)</u>
Net liability	<u>¥ 3,634</u>	<u>¥ 4,068</u>	<u>\$ 31,060</u>

The components of net periodic benefit costs for the years ended March 31, 2006 and 2005, were as follows:

	Millions of Japanese Yen		Thousands of U.S. Dollars
	<u>2006</u>	<u>2005</u>	<u>2006</u>
Service cost	¥ 611	¥ 748	\$ 5,222
Interest cost	301	393	2,573
Expected return on plan assets	(297)	(346)	(2,538)
Actuarial cost	413	291	3,530
Prior service cost	<u>(387)</u>	<u>(128)</u>	<u>(3,308)</u>
Net periodic benefit costs	<u>¥ 641</u>	<u>¥ 958</u>	<u>\$ 5,479</u>

Assumptions used for the years ended March 31, 2006 and 2005, are set forth as follows:

	<u>2006</u>	<u>2005</u>
Discount rate	2.0%	2.0%
Expected rate of return on plan assets	3.0%	4.0%
Recognition period of actuarial gain or loss	10 years	10 years
Amortization period of prior service cost	5 years	5 years

11. SHAREHOLDERS' EQUITY

Through May 1, 2006, Japanese companies are subject to the Commercial Code of Japan (the "Code").

The Code requires that all shares of common stock be issued with no par value and at least 50% of the issue price of new shares is required to be recorded as common stock and the remaining net proceeds are required to be presented as additional paid-in capital, which is included in capital surplus. The Code permits Japanese companies, upon approval of the Board of Directors, to issue shares to existing shareholders without consideration by way of a stock split. Such issuance of shares generally does not give rise to changes within the shareholders' accounts.

The Code also provides that an amount of 10% or more of the aggregate amount of cash dividends and certain other appropriations of retained earnings associated with cash outlays applicable to each period (such as bonuses to directors) shall be appropriated as a legal reserve (a component of retained earnings) until the total of such reserve and additional paid-in capital equals 25% of common stock. The amount of total legal reserve and additional paid-in capital that exceeds 25% of the common stock may be available for dividends by resolution of the shareholders after transferring such excess in accordance with the Code. In addition, the Code permits the transfer of a portion of additional paid-in capital and legal reserve to the common stock by resolution of the Board of Directors.

The Code allows Japanese companies to purchase treasury stock and dispose of such treasury stock upon resolution of the Board of Directors. The aggregate purchased amount of treasury stock cannot exceed the amount available for future dividends plus the amount of common stock, additional paid-in capital or legal reserve that could be transferred to retained earnings or other capital surplus other than additional paid-in capital upon approval of such transfer at the annual general meeting of shareholders.

In addition to the provision that requires an appropriation for a legal reserve in connection with the cash outlays, the Code also imposes certain limitations on the amount of capital surplus and retained earnings available for dividends. The amount of capital surplus and retained earnings available for dividends under the Code was ¥9,141 million (\$78,128 thousand) as of March 31, 2006, based on the amount recorded in the parent company's general books of account.

Dividends are approved by the shareholders at a meeting held subsequent to the end of the fiscal year to which the dividends are applicable. Semiannual interim dividends may also be paid upon resolution of the Board of Directors, subject to certain limitations imposed by the Code.

On May 1, 2006, a new corporate law (the "Corporate Law") became effective, which reformed and replaced the Code with various revisions that would, for the most part, be applicable to events or transactions which occur on or after May 1, 2006 and for the fiscal years ending on or after May 1, 2006. The significant changes in the Corporate Law that affect financial and accounting matters are summarized below:

a. Dividends

Under the Corporate Law, companies can pay dividends at any time during the fiscal year in addition to the year-end dividend upon resolution at the shareholders meeting. For companies that meet certain criteria such as: (1) having the Board of Directors, (2) having independent auditors, (3) having the Board of Corporate Auditors, and (4) the term of service of the directors is prescribed as one year rather than two years of normal term by its articles of incorporation, the Board of Directors may declare dividends (except for dividends in kind) if the company has prescribed so in its articles of incorporation.

The Corporate Law permits companies to distribute dividends-in-kind (non-cash assets) to shareholders subject to a certain limitation and additional requirements.

Semiannual interim dividends may also be paid once a year upon resolution by the Board of Directors if the articles of incorporation of the company so stipulate. Under the Code, certain limitations were imposed on the amount of capital surplus and retained earnings available for dividends. The Corporate Law also provides certain limitations on the amounts available for dividends or the purchase of treasury stock. The limitation is defined as the amount available for distribution to the shareholders, but the amount of net assets after dividends must be maintained at no less than ¥3 million.

b. Increases/Decreases and Transfer of Common Stock, Reserve and Surplus

The Corporate Law requires that an amount equal to 10% of dividends must be appropriated as a legal reserve (a component of retained earnings) or as additional paid-in capital (a component of capital surplus) depending on the equity account charged upon the payment of such dividends until the total of aggregate amount of legal reserve and additional paid-in capital equals 25% of the common stock. Under the Code, the aggregate amount of additional paid-in capital and legal reserve that exceeds 25% of the common stock may be made available for dividends by resolution of the shareholders. Under the Corporate Law, the total amount of additional paid-in capital and legal reserve may be reversed without limitation of such threshold. The Corporate Law also provides that common stock, legal reserve, additional paid-in capital, other capital surplus and retained earnings can be transferred among the accounts under certain conditions upon resolution of the shareholders.

c. Treasury Stock and Treasury Stock Acquisition Rights

The Corporate Law also provides for companies to purchase treasury stock and dispose of such treasury stock by resolution of the Board of Directors. The amount of treasury stock purchased cannot exceed the amount available for distribution to the shareholders which is determined by specific formula.

Under the Corporate Law, stock acquisition rights, which were previously presented as a liability, are now presented as a separate component of shareholders' equity.

The Corporate Law also provides that companies can purchase both treasury stock acquisition rights and treasury stock. Such treasury stock acquisition rights are presented as a separate component of shareholders' equity or deducted directly from stock acquisition rights.

On December 9, 2005, the ASBJ published a new accounting standard for presentation of shareholders' equity. Under this accounting standard, certain items which were previously presented as liabilities are now presented as components of shareholders' equity. Such items include stock acquisition rights, minority interest, and any deferred gain or loss on derivatives accounted for under hedge accounting. This standard is effective for fiscal years ending on or after May 1, 2006.

12. COMMITMENTS AND CONTINGENT LIABILITIES

The amount of capital commitments outstanding at March 31, 2006, for purchases of property, plant and equipment for the purpose of renewal or expansion of production and research facilities was ¥68 million (\$581 thousand).

Contingent liabilities at March 31, 2006, are summarized as follows:

	<u>Millions of Japanese Yen</u>	<u>Thousands of U.S. Dollars</u>
Guarantees and items of a similar nature of related parties' indebtedness	¥ 804	\$ 6,872
Trade notes endorsed	86	735
Export drafts discounted	<u>39</u>	<u>333</u>
Total	<u>¥ 929</u>	<u>\$ 7,940</u>

13. STOCK OPTION PLAN

The Company has a stock option plan. The stock option plan, which was approved at the general shareholders meeting on June 29, 2005, provides the directors an option to purchase the Company's common stock.

<u>Date of Grant</u>	<u>Number of Option Granted (Hundreds of Shares)</u>		<u>Exercise Period</u>	<u>Exercise Price of Option (Yen per Share)</u>
June 29, 2005	Directors	380	From June 30, 2005 to June 29, 2025	¥1

14. NET INCOME PER SHARE

Reconciliation of the differences between basic and diluted net income per share ("EPS") for the years ended March 31, 2006 and 2005, is as follows:

	<u>Millions of Japanese Yen</u>	<u>Thousands of Shares</u>	<u>Japanese Yen</u>	<u>U.S. Dollars</u>
<u>Year Ended March 31, 2006</u>	<u>Net Income</u>	<u>Weighted-average Shares</u>	<u>EPS</u>	
Basic EPS—Net income available to common shareholders	¥ 2,448	64,935	<u>¥ 37.70</u>	<u>\$ 0.32</u>
Effect of dilutive securities— Stock options	_____	<u>46</u>		
Diluted EPS—Net income for computation	<u>¥ 2,448</u>	<u>64,981</u>	<u>¥ 37.67</u>	<u>\$ 0.32</u>
<u>Year Ended March 31, 2005</u>				
Basic EPS—Net income available to common shareholders	¥ 2,341	64,802	<u>¥ 36.13</u>	
Effect of dilutive securities— Stock options	_____	<u>73</u>		
Diluted EPS—Net income for computation	<u>¥ 2,341</u>	<u>64,875</u>	<u>¥ 36.09</u>	

15. RELATED PARTY TRANSACTIONS

Transactions of the Company with associated companies for the years ended March 31, 2006 and 2005, were as follows:

	Millions of Japanese Yen		Thousands of U.S. Dollars
	<u>2006</u>	<u>2005</u>	<u>2006</u>
Sales	¥ 2,137	¥ 1,517	\$ 18,265
Purchases	1,233	1,388	10,538
Dividend income	2	2	17
Other income	10	22	85

The balances due to or from these associated companies at March 31, 2006 and 2005, were as follows:

	Millions of Japanese Yen		Thousands of U.S. Dollars
	<u>2006</u>	<u>2005</u>	<u>2006</u>
Trade notes receivable		¥ 1	
Trade accounts receivable	¥ 713	452	\$ 6,094
Prepaid expenses and other current assets	173	60	1,479
Trade accounts payable	168	165	1,436

16. RESEARCH AND DEVELOPMENT COSTS

Research and development costs charged to income were ¥1,729 million (\$14,778 thousand) and ¥1,710 million for the years ended March 31, 2006 and 2005, respectively.

17. DERIVATIVES

The Company enters into foreign exchange forward contracts to hedge foreign exchange risk associated with certain assets and liabilities. The Company also enters into interest rate swap contracts as a means of managing its interest rate exposure on certain liabilities. All derivative transactions are entered into in order to hedge interest and foreign currency exposures associated with its business. Accordingly, interest and currency risks associated with these derivatives are basically offset by opposite movements in the value of hedged assets and liabilities. Because the counterparties to these derivatives are limited to major international financial institutions, the Company does not anticipate any losses arising from credit risk. Derivative transactions entered into by the Company have been made in accordance with internal policies, which regulate the authorization and credit limit amount. All derivatives, which the Company uses, qualify for hedge accounting as of and for the years ended March 31, 2006 and 2005, and are not subject to disclosure.

18. SEGMENT INFORMATION

(1) Operations by Industry Segment

Information has not been provided because the Companies operated principally in the "non-woven fabrics" industry in 2006 and 2005.

(2) *Operations by Geographical Segment*

Operations of the Companies by geographical segment for the years ended March 31, 2006 and 2005, were as follows:

	Millions of Japanese Yen					Thousands of U.S. Dollars				
	2006					2006				
	Japan	North America	Asia	Eliminations	Consolidated	Japan	North America	Asia	Eliminations	Consolidated
Sales:										
Sales to customers	¥ 43,487	¥ 8,377	¥ 1		¥ 51,865	\$ 371,684	\$ 71,598	\$ 9		\$ 443,291
Intersegment sales	<u>169</u>	<u>402</u>	<u>189</u>	<u>¥ (760)</u>	<u> </u>	<u>1,444</u>	<u>3,436</u>	<u>1,615</u>	<u>\$ (6,495)</u>	<u> </u>
Total sales	43,656	8,779	190	(760)	51,865	373,128	75,034	1,624	(6,495)	443,291
Operating cost and expenses	<u>41,312</u>	<u>7,935</u>	<u>279</u>	<u>(772)</u>	<u>48,754</u>	<u>353,094</u>	<u>67,820</u>	<u>2,385</u>	<u>(6,598)</u>	<u>416,701</u>
Operating income or loss	<u>¥ 2,344</u>	<u>¥ 844</u>	<u>¥ (89)</u>	<u>¥ 12</u>	<u>¥ 3,111</u>	<u>\$ 20,034</u>	<u>\$ 7,214</u>	<u>\$ (761)</u>	<u>\$ 103</u>	<u>\$ 26,590</u>
Assets	<u>¥ 48,809</u>	<u>¥ 5,677</u>	<u>¥ 1,074</u>	<u>¥ (222)</u>	<u>¥ 55,338</u>	<u>\$ 417,171</u>	<u>\$ 48,521</u>	<u>\$ 9,179</u>	<u>\$ (1,897)</u>	<u>\$ 472,974</u>
	Millions of Japanese Yen									
	2005									
	Japan	North America		Eliminations	Consolidated					
Sales:										
Sales to customers	¥ 43,080	¥ 6,284			¥ 49,364					
Intersegment sales	<u>143</u>	<u>496</u>		<u>¥ (639)</u>	<u> </u>					
Total sales	43,223	6,780		(639)	49,364					
Operating cost and expenses	<u>40,969</u>	<u>6,258</u>		<u>(622)</u>	<u>46,605</u>					
Operating income	<u>¥ 2,254</u>	<u>¥ 522</u>		<u>¥ (17)</u>	<u>¥ 2,759</u>					
Assets	<u>¥ 49,329</u>	<u>¥ 4,146</u>		<u>¥ (146)</u>	<u>¥ 53,329</u>					

(3) *Sales to Foreign Customers*

Sales to foreign customers of the Companies for the years ended March 31, 2006 and 2005, were as follows:

	Millions of Japanese Yen				Thousands of U.S. Dollars			
	2006				2006			
	Asia	North America	Other	Total	Asia	North America	Other	Total
Sales to foreign customers	¥ 5,507	¥ 8,477	¥ 352	¥ 14,336	\$ 47,068	\$ 72,453	\$ 3,009	\$ 122,530
Consolidated sales				51,865				443,291
Ratio of sales to foreign customers to consolidated sales				27.6%				27.6%

	Millions of Japanese Yen			
	2005			
	<u>Asia</u>	<u>North America</u>	<u>Other</u>	<u>Total</u>
Sales to foreign customers	¥ 5,525	¥ 6,674	¥ 567	¥ 12,766
Consolidated sales				49,364
Ratio of sales to foreign customers to consolidated sales				25.9%

19. SUBSEQUENT EVENTS

(1) Appropriations of Retained Earnings

At the general shareholders meeting held on June 29, 2006, the Company's shareholders approved the following appropriations of retained earnings:

	<u>Millions of Japanese Yen</u>	<u>Thousands of U.S. Dollars</u>
Cash dividends, ¥6.0 (\$0.05) per share	¥ 390	\$ 3,333
Bonuses to directors	<u>42</u>	<u>359</u>
Total	<u>¥ 432</u>	<u>\$ 3,692</u>

(2) Stock Option Plan

At the general shareholders meeting held on June 29, 2006, the Company's shareholders approved the stock option plan for the Company's directors to purchase up to 30 thousand shares of the Company's common stock in the period from June 29, 2006 to June 28, 2026. The options will be granted with an exercise price of ¥1.

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