Annual Report 2007

TOKIMEC INC.

Description of Business

The TOKIMEC Group is engaged in the manufacture and sale of marine instruments, hydraulic equipment, aerospace and defense equipment, instruments and systems for industrial use.

Financial Highlights

Years ended March 31, 2007 and 2006

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2007	2006	2007
Net sales	¥46,808	¥43,438	$396,678
Operating income	3,284	2,523	27,831
Income before income taxes and minority interests	2,906	2,253	24,627
Net income	3,548	1,991	30,068
Total assets	48,814	48,797	413,678
Equity	19,063	15,906	161,551

	Yen		U.S. dollars
Per share of common stock:	2007	2006	2007
Net income (Note 14)	¥41.63	¥23.35	$0.35
Cash dividends	3.00	2.00	0.03

Notes: 1. Yen amounts are translated, for convenience only, at the rate of ¥118=U.S. $1.
2. The computations of net income per share of common stock are based on the weighted average number of shares outstanding during each year.

Sales by Operating Segment

Year ended March 31, 2007

	Millions of yen	% to total	% change (2007/2006)
Marine Systems	¥9,427	20.1%	9.9%
Hydraulic and Pneumatic	14,176	30.3	7.5
Fluid Measurement	2,328	5.0	19.4
Defense and Communications	16,735	35.8	9.1
Others	4,142	8.8	(5.5)
Total	¥46,808	100.0%	7.8%

To Our Shareholders

Review of Business Operations

Despite an apparent softness in personal consumption, the Japanese economy during the consolidated fiscal year remained on a steady recovery course buoyed by growth in private capital investments amid a backdrop of good corporate performance and improvement in employment conditions.

Under these circumstances, the strategies pursued by the TOKIMEC Group to achieve management goals included - the expansion of business areas and higher value added through new product development, cultivation of new markets, and launching of new businesses; the promotion of total cost down through higher operational efficiencies; and the promotion of measures and policies across the Group. Specifically, this involved speedy market launches of strategic products; the overhaul of all of our operational processes and procurement practices of critical electronic parts; reform of production models including improvement of manufacturing processes and review of in-sourcing and out-sourcing decisions, as well as promotion of the sharing of information related to sales, engineering, and manufacturing.

As a result of these activities, we achieved increases in orders for marine equipment, hydraulic & pneumatic equipment, and fluid measurement equipment over last year. Regarding defense & communications equipment, although there was a falloff in orders for defense equipment compared to the previous year, orders for communications equipment increased significantly. Orders for the overall TOKIMEC Group were ¥48,034 million which was an increase of ¥4,317 million (9.9%) over the last period. Sales of marine equipment, hydraulic & pneumatic equipment, fluid measurement equipment, and defense & communications equipment exceeded the previous year with overall Group sales of ¥46,808 million which represented a gain of ¥3,370 (7.8%) over last year.

Regarding profit and loss, gross profit on sales increased dramatically as the result of the increase in sales and decrease in the cost ratio. Although sales expenses and general & administrative expenses increased, operating income increased to ¥3,284 million (30.1%), an increase of ¥760 million compared to the previous year and with tax effect accounting, net income increased to ¥3,548 million which was an increase of ¥1,557 (78.2%) over last year.

Business operations by segments were as follows.

Marine Systems Business

In the commercial vessel market, the number of ships being built remained at high level aided by briskness in the naval market and our sales increased over last year. However with the halt of sales of unprofitable products, orders decreased compared to the previous year. In the coastal vessel market, fare increases helped ship construction resulting in a slight gain in the number of vessels built. Although orders exceeded that of the previous year, sales fell slightly over the same period.

In the overseas market, new ship construction in Korea and China remained good and with sales expansion efforts in India and Turkey and increased sales of gyrocompasses to OEMs in Europe and the US, we were able to post gains in both orders and sales over the same period last year.

Promotional activities and private seminars held for domestic and overseas ship owners and shipyards which focused on the ease of use and multi-functionality of our electronic chart display information system, ECDIS, were well received.

Our business for marine equipment repair and maintenance components and parts in the commercial market remained brisk, and with a recovering coastal vessel market, orders and sales both registered gains over the last year.

Under this favorable environment, we market introduced an easy-to-use navigational data recorder for existing cargo vessels and LED radar for coastal vessels. We also obtained type approval for our successor MF/HF wireless equipment from the Ministry of Land, Infrastructure and Transport (MLIT) in June, 2006 and the launch of this product into the market postures us for further expansion in orders and sales.

Overall sales in this segment were ¥9,427 million which was an increase of ¥849 million (9.9%) over the previous year and operating income was ¥641 million, an increase of ¥251 million (64.3%) over the same period.

Hydraulic and Pneumatic Business

In the plastics processing machinery market, despite the severe environment reflecting the continuing trend from hydraulic to electric machines and drop in unit production of large size injection molding machines, our strategy of promoting close-up support and sales activities at customers enabled us to achieve gains in both orders and sales over the last year. In the machine tool market, production demand increased for general purpose machinery and electric & precision machinery as well as for machinery for Europe and India resulting in an increase in orders and sales compared to the previous year. In the construction machinery market, domestic and overseas demand for machinery remained brisk, and there was a huge gain in orders and sales over the last year. In the overseas market, despite recovery in the China market, business in Korea was adversely impacted by the steep rise in the won currency which resulted in a decline in business performance of Korean manufacturers and as a result, both orders and sales declined from the last year.

Regarding hydraulic equipment applications, increases in the marine-related market for ship-board hatch cover hydraulic systems, general industrial machinery and machine tools for the automobile industry, and hydraulic systems for construction equipment OEMs resulted in orders and sales which exceeded the previous year.

Amid this backdrop, product activities included development and market release of small-sized piston pumps for the machine tool market and model upgrade of our PRC3 pocket-sized low power radio remote control system for construction machinery. Our energy saving, direct drive pump control system previously released into the market has been received favorably by major domestic users and we are also receiving increasing inquiries from Taiwan and China for this system.

Overall sales in this segment were ¥14,176 million, an increase of ¥987 million (7.5%) compared to the previous year with operating income of ¥1,906 million which represented an increase of ¥205 million (12.0%) over last year.

Fluid Measurement Equipment Business

In the public sector market, the move toward general competitive bidding on projects has increased the number of new participants and exacerbated pricing competition. Under these circumstances, the merger of towns and villages of regional municipalities and the broadening scope of water supply operations are perceived as good opportunities and there are patient efforts underway to develop related demand. Our activities were focused on pursuing demand for renewal of water management systems for the agricultural water sector and expansion of sales channels of radar level gauges for urban river flood water monitoring and these efforts resulted in increases in both orders and sales over last year.

In the private sector market, although demand for replacement of obsolete equipment increased, price competition intensified and orders fell below last year although there was a slight gain in sales over the same period. We are also anticipating further business with the approach of the replacement period of a significant number of ship docking systems.

In the overseas market, despite efforts aimed at expanding sales of ultrasonic flowmeters for water supply distribution and wastewater systems, our orders and sales registered declines from the previous year.

Other activities encompassed market launch and sales promotion efforts in the second half of the year of ultrasonic flowmeters (UF-900G/UFM-400G) with enhanced features including a waterproof design.

Overall sales in this segment were ¥2,328, an increase of ¥378 million (19.4%) over the previous year with an operating income of ¥324 million, an increase of ¥275 million (559.6%).

Defense and Communications Equipment Business

In the defense market, there was approximately a 1% reduction in defense-related expenditures compared to the previous year with a trend toward further reductions in budgets for front line equipment. Moreover, with reforms in procurement practices, the business environment in this sector has become increasingly difficult.

Although there was an increase in orders including for test equipment relating to the ALE-45 countermeasure dispenser system for the F-15, equipment related to next generation radio materials and equipment, spares and parts for FPS-4 ground search radar systems, repairs and parts for naval vessel equipment, and products for the private sector, overall orders were impacted by a falloff in volume for patrol helicopter HLR-108C countermeasure sets and reduced repairs for avionic intermediate shop (AIS) equipment for F-15 electronic systems resulting in a decrease compared to last year.

Sales of products and parts supplied for conventional fighter aircraft and specialized vehicular parts and repair work related to the MLRS multiple launch rocket system decreased but increased for radar warning receiver equipment for C-X cargo aircraft and HLR-08C countermeasure sets for the patrol helicopter on orders received in the previous fiscal period and for development work and parts for naval vessel equipment and this enabled us to post a significant gain over last year.

In the maritime transport equipment market, decreases in equipment and display monitors for Vessel Traffic Systems (VTS) and Automatic Identification Systems (AIS) resulted in a decline in orders and sales compared to the previous year.

In our communications equipment market, we successfully concluded contracts for antenna positioning control systems for mobile satellite communications which greatly boosted our orders over last year. Aided by the end of inventory adjustments by Chinese PHS base station manufacturers and the start of procurement activity of modules for base stations, sales also increased over the past year.

Activities in the period included development and market release of improved and sophisticated amp modules for PHS base stations, WiMAX base station amp modules, and reader/writers for amusement market automatic identification systems.

Overall business results for this segment were sales of ¥16,735 million, a increase of ¥1,398 million (9.1 %) compared to the previous year with an operating income of ¥540 million which was an increase of ¥303 million (127.4%) compared to last year.

Other Businesses

In our printing inspection equipment and systems market, with the passing of the round of new equipment installations prompted by environmental restrictions on the printing industry, orders decreased compared to the previous year but there was an increase of sales in the same period as the result of our efforts to expand into the Asian market, demand for replacement of existing facilities, and the development of new customers.

Although there was overall industry growth in business for fire control equipment, conditions remained severe amid the continuing trend of falling prices. Under these circumstances, orders benefited from an increase in fire extinguishing systems and repair projects for multilevel parking garages and there were gains in sales of fire extinguishing systems and repair projects for hazardous material facilities which enabled us to post increases in both orders and sales over the last year.

Business in our road and tunnel equipment segment were impacted by decreases in road construction projects, reduced budgets for public tunnel projects, and severe price competition which resulted in orders and sales declines from last year’s level.

Although business for railway maintenance product sales and railway track maintenance contract services remained good, demand for rail inspection cars reached a turning point which resulted in orders and sales falling below the previous year.

In our information systems segment, orders and sales related to development work and contract computing services decreased from the previous year. As part of the effort to develop new business areas, we have taken an equity stake in a computer systems software development and sales company - OZ Web Technology Inc.

Overall results of these segments were sales of ¥4,142 million, a decrease of ¥243 million (-5.5%) from last year and an operating loss of ¥127 million yen compared to an operating profit of ¥146 million in the last year.

Status of Cash Flow

Cash and cash equivalents on a consolidated basis for the fiscal year were ¥5,356 million which was a decrease of ¥3,464 million (-39.3%) compared to the previous fiscal year. Cash flow from the various sources and factors involved are as follows.

Cash Flow from Operating Activities

Income before income taxes and minority interests was ¥2,906 million, an increase of ¥653 million (29.0%) over the previous year. The increase in inventories was ¥130 million, a decrease from the previous year of ¥632 million (-82.9%). The increase in receivables was ¥2,087 million, an increase of ¥1,272 million (155.9%) from the previous year and the increase in payables was ¥515 million, a decrease of ¥303 million (-37.1%) from the previous year. This resulted in cash flow from operating activities of ¥3,022 million which was a decrease of ¥334 million (-10.0%) compared to the previous year.

Cash Flow from Investing Activities

Purchases of investment securities were ¥80 million, a decrease of ¥174 million (-68.6%) compared to last year. Proceeds from sales of property, plant and equipment were ¥13 million which was a decrease of ¥534 million (-97.7%) from last year. This resulted in cash used in investing activities of ¥620 million which was an increase of ¥137 million (28.4%) compared to the previous year.

Cash Flow from Financing Activities

Decrease in short-term bank loans-net was ¥3,927 million, a decrease of ¥579 million (-12.9%) from the prior year and repayments of long-term debt were ¥1,779 million which was a decrease of ¥563 million (-24.0%) from last year. Proceeds from long-term debt were ¥100 million which was a decrease of ¥4,742 million (-97.9%) from the previous year. As a result, cash used in financing activities was ¥5,867 million, an increase of ¥3,684 million (168.8%) compared to the previous year.

The Tasks of the Company

Despite anxiety over sharp rises in crude oil prices and softening in personal consumption, the Japanese economy remained on a recovery footing buoyed by increases in capital investments as the result of improvements in corporate earnings, improvements in employment conditions, and strong exports.

Although there are signs of a slow down in the US economy amid corrections in the housing market and ongoing inventory adjustments, the economy has not lost its underlying strength and it is also expected that the European and Chinese economies, in general, will maintain their expansionary trend.

However, greater pressures imposed on companies with the enactment and implementation of various laws and regulations such as laws governing corporations and transactions in financial products, the promotion of corporate restructuring and restrictions related to the environment as well as intensifying competition are expected to make conditions under which companies operate increasingly challenging.

Under such circumstances, the tasks facing the Group will require efforts not only involving strengthening of existing businesses and further improvement of our earnings structure but also changes aimed at achieving a growth-oriented business structure. In addition, the Group must endeavor to fulfill its responsibilities to society as a corporation by insuring that our management philosophies and code of ethics are thoroughly disseminated in our organization and by hastening the promotion of efforts to strengthen corporate governance and the establishment of an internal controls system.

In order to master these issues, we established a mid-term, 3-year business plan starting in fiscal year 2007, which promotes specific activities including the following.

1. Strengthening of existing businesses
 • We will review and revise each of our processes encompassing development through production, sales, and service to achieve better operating efficiencies and strengthen our on-site capabilities.
 • We shall review and revise our production model in effort to achieve improvements in total costs through better efficiencies in manufacturing, sales, and logistics as well as strive to enhance the quality of our products and services.

2. Transformation to a growth-oriented business structure
 • We will strive to develop and launch new products and new technologies, enter new domestic and overseas markets, expand business areas and reinforce management resources through business tie-ups, and strengthen our production centers.

3. Nurturing of our human resources and strengthening of our organizational capabilities
 • We will nurture and develop our human resources to insure continuity of the technologies and skills necessary in the furtherance our businesses.
 • We will strengthen our organizational capabilities which will enable us to cope with changes in the environment in a flexible manner.

4. Responsiveness to the social responsibilities of the company
 • We launched a corporate social responsibility (CSR) promotion office last year as part of our basic policy relating to our internal controls system and will carry out activities centering on this framework in responding to societal demands from stockholders.

Through the teamwork of all members of the Group, we will endeavor to prevail over these challenges in striving to attain our management objectives.

The basic policies which govern our company are as follows.

Regarding the fiscal 2007 mid-term business plan established in March of this year, we will undertake improvement of corporate value by enhancing the competitive superiority of each business segment through the restructuring of our operating base which is predicated upon structural reform of our business and development and strengthening of our human resources. Our management philosophy emphasizes the creation of products based on leading edge measurement, recognition, and control technologies and our contribution to society in supplying such products to our customers. Our employees are committed to diligently assimilating our seven Code of Conduct guidelines which, in addition to customer satisfaction, address preservation of our environment and the observance of laws and regulations. These Code of Conduct guidelines are:

1. We shall strive relentlessly with imagination and creativity in developing the best products and technology.

2. We shall strive to create new products and businesses which anticipate the needs of the market.

3. We shall earn the trust of our customers by providing safe and secure products and services.

4. We shall hone individual skills and emphasize self-improvement in strivingto become leaders in our respective fields.

5. We shall observe all applicable laws and regulations and as members of society, shall conduct ourselves in manner consistent with common sense and in accordance with the highest standards of integrity.

6. We shall strive to protect our beautiful natural environment and take goodcare of our precious resources.

7. With shared responsibility for corporate policy, each of us shall focus on achieving our goals with enthusiasm and sense of mission.

We are aware that a high morale of employees and their ability to carry out required tasks are essential factors which will determine whether we are able to implement the necessary measures to improve corporate value and to realize this goal. We recognize that improvement of Group corporate value will demand that management and employees share the objectives and together insure that our management philosophy and code of conduct are tangibly reflected in our business, and as consequence, in the sustenance and enhancement of the profits of our shareholders.

In this context, there may be a case where an acquisition proposal arises from a party with a different awareness. Whether to accept or reject such proposal would be determined by the stockholders and it is necessary to ensure, in anticipation of such an occurrence, that there will be ample opportunity to study the proposal and enough time for the board of directors to gather the necessary information and consider and prepare possible alternative proposals to stockholders and enable negotiations with the party proposing the acquisition. We convened a board of directors meeting on 10 May, 2007 where we established a "large-scale acquisition rule" (defense against takeover) which outlines a clear and definite procedure which would be implemented before an actual takeover attempt by a party with the aim to deter any acquisition which would not only negatively impact corporate value but cause a drop in stockholder profits. This rule was presented and adopted during our 76th stockholder's meeting held on June 28, 2007.

Research and Development Activities

The basic posture of the Group's R&D effort is the development of original products based on original technology. With its comparatively long range view, TOKIMEC's MRD Center is tasked with fundamental and applications research as well as product developments which involve relatively long timeframes while individual divisions and affiliated subsidiaries carry out shorter term product development. The core technologies of TOKIMEC include microwave, gyroscope, ultrasound, measurement, control, signal and image processing, and actuator technology.

Overall TOKIMEC Group R&D expenditures totaled ¥2,375 million. The principal segments, objectives, and key accomplishments of our research and development efforts and associated R&D expenses are outlined as follows

Marine Systems

The major focus of R&D efforts in this segment involved next generation navigational equipment and marine communications equipment designed to cope with innovations in information technology and activities related to revised International Maritime Organization (IMO) international standards. Specifically, research and development was carried out on gyrocompasses, autopilots, radars, and marine wireless equipment. Accomplishments include the market release of a simple navigational data recorder and LCD radar for coastal vessels. We also obtained type approval for MF/HF wireless equipment from the Ministry of Land, Infrastructure and Transport (MLIT).

R&D expenditures related to these activities were ¥436 million.

Hydraulic and Pneumatic Equipment

Hydraulic and pneumatic equipment and systems and related electronic controls are the focus of R&D efforts in this segment and specific product activities involved various types of pumps and control valves, hydraulic power units, hydraulic control systems, and electronic control equipment. Key concepts driving these efforts are energy savings and reliability improvement and accomplishments included development and market introduction of small piston pumps for the machine tool market, and a pocket-sized radio remote control system for the construction machinery market.

R&D expenditures for these activities were ¥416 million.

Fluid Measurement Equipment

Research and development efforts centered on fluid control measurement equipment and systems for next generation ultrasonic flow meters and microwave level gauges. Major achievements included market introduction of UF-900G and UFM-400G ultrasonic flowmeters and intrinsically safe, explosion-proof certification for our MRG-10A microwave level gauge.

Related R&D expenditures for these activities were ¥142 million.

Defense and Communications Equipment

Research and development efforts were focused on modernizing defense equipment including electronic warfare equipment and equipment for naval vessels as well as on technical innovations of microwave components employed in telecommunications systems. Specific defense-related research and development was carried out on improving performance of radar warning receivers and enhancing performance of high frequency parts. Telecommunications-related business research and development focused on amp modules for wireless communication base stations, switches, RFID-based premise entry/exit control systems, and antenna positioning control systems for mobile satellite communications. Achievements included market launch of radar indicator systems, tactical situation display processors, vibration gyro sensors, and amplifier modules for advanced PHS and WiMAX base stations.

R&D expenditures were ¥916 million.

Other Equipment

Other major business segments of the Group include printing inspection equipment and systems, railway track maintenance equipment, road and tunnel equipment, and fire extinguishing systems.

Development efforts related to printing inspection equipment and systems emphasized system upgrades and expanded printing pattern inspection functions. Railway track maintenance equipment is the primary business of our TOKIMEC RAIL TECHNO subsidiary and research and development is devoted to promoting manpower-savings and precision of railway track maintenance measurement equipment and systems. R&D efforts in our road and tunnel equipment segment, the focus of our TOKIMEC CONSTRUCTION SYSTEMS subsidiary, is centered on automation of construction machinery. People-safe and environment-safe extinguishing systems are the focus of research and development of our fire extinguishing systems business segment.

R&D expenses for these activities were ¥465 million.

• I sincerely thank the shareholders, customers, business partners, and other associates who have supported and cooperated with us during fiscal 2006. I look forward to your continued support and advice in the future.

H. Katsuki

Hideaki Katsuki
President

Consolidated Balance Sheets

TOKIMEC INC. and Consolidated Subsidiaries

March 31, 2007 and 2006

ASSETS	Millions of yen 2007	Millions of yen 2006	Thousands of U.S. dollars (Note 1) 2007
Current assets:			
Cash and cash equivalents	¥5,356	¥8,820	$45,390
Receivables–			
Trade notes	5,515	3,833	46,737
Trade accounts	10,301	9,756	87,297
Associated companies	351	489	2,975
Other	164	343	1,390
Allowance for doubtful accounts	(86)	(77)	(729)
Inventories (Note 4)	11,964	11,833	101,390
Deferred tax assets (Note 8)	856	497	7,254
Prepaid expenses and other current assets	230	216	1,949
Total current assets	34,650	35,711	293,644
Property, plant and equipment:			
Land (Note 5)	1,927	1,927	16,331
Buildings and structures (Note 5)	12,838	12,861	108,797
Machinery and equipment (Note 5)	14,480	14,568	122,712
Furniture and fixtures (Note 5)	10,366	10,354	87,847
Construction in progress	31	38	263
Total	39,642	39,749	335,949
Accumulated depreciation	(32,018)	(32,087)	(271,339)
Net property, plant and equipment	7,624	7,662	64,610
Investments and other assets:			
Investment securities (Note 3)	3,305	3,712	28,008
Investments in and advances to associated companies	438	321	3,712
Software	34	46	288
Goodwill	98	128	831
Deposits	1,022	1,019	8,661
Deferred tax assets (Note 8)	1,479	5	12,534
Other assets	234	271	1,983
Allowance for doubtful accounts	(70)	(77)	(593)
Total investments and other assets	6,540	5,425	55,424
Total	¥48,814	¥48,797	$413,678

LIABILITIES AND EQUITY	Millions of yen 2007	Millions of yen 2006	Thousands of U.S. dollars (Note 1) 2007
Current liabilities:			
Short-term bank loans (Note 5)	¥5,959	¥9,887	$50,500
Current portion of long-term debt (Note 5)	1,534	1,779	13,000
Payables–			
Trade notes	1,150	1,241	9,746
Trade accounts	5,490	4,885	46,525
Associated companies	1		8
Other	560	377	4,746
Income taxes payable	1,624	148	13,763
Accrued bonuses	1,005	901	8,517
Accrued expenses	1,292	1,204	10,949
Other current liabilities	260	336	2,203
Total current liabilities	18,876	20,758	159,966
Long-term liabilities:			
Long-term debt (Note 5)	5,101	6,535	43,229
Liability for retirement benefits (Note 6)	5,755	4,979	48,771
Deposits received	11	12	93
Deferred tax liabilities (Note 8)	8	608	68
Total long-term liabilities	10,874	12,134	92,153
Minority interests		131	
Commitments and contingent liabilities (Note 11 and 13)			
Equity (Notes 7 and 15):			
Common stock,			
Authorized, 250,000,000 shares			
Issued, 85,382,196 shares in 2007 and 2006	7,218	7,218	61,169
Capital surplus	14	14	119
Retained earnings	10,455	7,163	88,602
Unrealized gain on available-for-sale securities	1,177	1,395	9,975
Foreign currency translation adjustments	68	1	576
Treasury stock –at cost			
107,535 shares in 2007 and 95,825 shares in 2006	(18)	(15)	(153)
Total	18,914	15,775	160,288
Minority interests	150		1,271
Total equity	19,063		161,551
Total	¥48,814	¥48,797	$413,678

See notes to consolidated financial statements.

Consolidated Statements of Income

TOKIMEC INC. and Consolidated Subsidiaries

Years ended March 31, 2007 and 2006

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2007	2006	2007
Net sales (Note 9)	¥46,808	¥43,438	$396,678
Cost of sales (Notes 9 and 10)	34,667	32,445	293,788
Gross profit	12,141	10,994	102,890
Selling, general and administrative expenses (Note 10)	8,858	8,471	75,068
Operating income	3,284	2,523	27,831
Other income (expenses):			
Interest and dividend income	65	45	551
Equity in earnings of associated companies	57	62	483
Loss on devaluation of investment securities	(116)		(983)
Gains from sales of investment securities	2		17
Interest expense	(190)	(234)	(1,610)
(Loss) gain on sales and disposals of property, plant and equipment	(43)	24	(364)
Loss on disposals of inventories	(235)	(236)	(1,992)
Other-net	83	69	703
Other expenses–net	(378)	(271)	(3,203)
Income before income taxes and minority interests	2,906	2,253	24,627
Income taxes (Note 8):			
Current	1,647	155	13,958
Deferred	(2,285)	90	(19,364)
Total	(638)	245	(5,407)
Minority interests in net income (expenses) of consolidated subsidiaries	(5)	16	(42)
Net income	¥3,548	¥1,991	$30,068

Per share of common stock (Notes 2 and 14):	Yen		U.S. dollars
	2007	2006	2007
Net income	¥41.63	¥23.35	$0.35
Cash dividends	3.00	2.00	0.03

See notes to consolidated financial statements.

Consolidated Statements of Changes in Equity

TOKIMEC INC. and Consolidated Subsidiaries

Years ended March 31, 2007 and 2006

	Millions of yen									
	Outstanding Number of Shares of Common Stock	Common Stock	Capital Surplus	Retained Earnings	Unrealized Gain on Available-for-sale Securities	Foreign Currency Translation Adjustments	Treasury Stock	Total	Minority Interests	Total Equity
Balance at April 1, 2005	85,300,946	¥7,217	¥13	¥5,341	¥662	¥(0)	¥(10)	¥13,224		¥13,224
Net income				1,991				1,991		1,991
Net increase in unrealized gain on available-for-sale securities					732			732		732
Net increase in foreign currency translation adjustments						2		2		2
Purchase of treasury stock	14,575						(4)	(4)		(4)
Cash dividends, ¥2 per share				(171)				(171)		(171)
Balance at March 31, 2006	85,286,371	7,218	14	7,163	1,395	1	(15)	15,775		15,775
Reclassified balance as of March 31, 2006 (Note 2)									¥131	131
Net income				3,548				3,548		3,548
Purchase of treasury stock	11,710						(3)	(3)		(3)
Cash dividends, ¥3 per share				(256)				(256)		(256)
Net change in the year					(218)	67		(151)	19	(132)
Balance at March 31, 2007	85,274,661	¥7,218	¥14	¥10,455	¥1,177	¥68	¥(18)	¥18,914	¥150	¥19,063

	Thousands of U.S. dollars(Note 1)								
	Common Stock	Capital Surplus	Retained Earnings	Unrealized Gain on Available-for-sale Securities	Foreign Currency Translation Adjustments	Treasury Stock	Total	Minority Interests	Total Equity
Balance at March 31, 2006	$61,169	$119	$60,703	$11,822	$8	$(127)	$133,686		$133,686
Reclassified balance as of March 31, 2006 (Note 2)								$1,110	1,110
Net income			30,068				30,068		30,068
Purchase of treasury stock						(25)	(25)		(25)
Cash dividends, ¥3 per share			(2,169)				(2,169)		(2,169)
Net change in the year				(1,847)	568		(1,280)	161	(1,119)
Balance at March 31, 2007	$61,169	$119	$88,602	$9,975	$576	$(153)	$160,288	$1,271	$161,551

See notes to consolidated financial statements.

Consolidated Statements of Cash Flows

TOKIMEC INC. and Consolidated Subsidiaries

Years ended March 31, 2007 and 2006

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2007	2006	2007
Operating activities:			
Income before income taxes and minority interests	¥2,906	¥2,253	$24,627
Adjustments for:			
Income taxes - paid	(181)	(214)	(1,534)
Depreciation	790	875	6,695
Increase in accrued bonuses	104	139	881
Increase (decrease) in allowance for doubtful accounts	2	(84)	17
Increase in liability for retirement benefits	776	930	6,576
Gains from sales of investment securities	(2)		(17)
Loss on devaluation of investment securities	116		983
Gain (loss) on sales and disposals of property, plant and equipment	43	(24)	364
Changes in assets and liabilities:			
Increase in receivables	(2,087)	(816)	(17,686)
Increase in inventories	(130)	(763)	(1,102)
Increase in payables	515	818	4,364
(Decrease) increase in other assets	(38)	62	(322)
Increase in liabilities	200	231	1,695
Decrease in interest payable	(5)	(9)	(42)
Other-net	14	(42)	119
Total adjustments	117	1,104	992
Net cash provided by operating activities	3,022	3,356	25,610
Investing activities:			
Purchases of investment securities	(80)	(254)	(678)
Proceeds from sales of investment securities	7		59
Purchases of property, plant and equipment	(704)	(757)	(5,966)
Proceeds from sales of property, plant and equipment	13	546	110
Other-net	145	(19)	1,229
Net cash used in investing activities	(620)	(483)	(5,254)
Financing activities:			
Decrease in short-term bank loans-net	(3,927)	(4,507)	(33,280)
Proceeds from long-term debt	100	4,842	847
Repayments of long-term debt	(1,779)	(2,342)	(15,076)
Other-net	(261)	(176)	(2,212)
Net cash used in financing activities	(5,867)	(2,183)	(49,720)
Foreign currency translation adjustments on cash and cash equivalents	1	9	8
Net (decrease) increase in cash and cash equivalents	(3,464)	699	(29,356)
Cash and cash equivalents, beginning of year	8,820	8,121	74,746
Cash and cash equivalents, end of year	¥5,356	¥8,820	$45,390

See notes to consolidated financial statements.

Notes to Consolidated Financial Statements

TOKIMEC INC. and Consolidated Subsidiaries

Years ended March 31, 2007 and 2006

1. Basis of Presenting Consolidated Financial Statements

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

On December 27, 2005, the Accounting Standards Board of Japan (the “ASBJ”) published a new accounting standard for the statement of changes in equity, which is effective for fiscal years ending on or after May 1, 2006. The consolidated statement of shareholders’ equity, which was previously voluntarily prepared in line with the international accounting practices, is now required under generally accepted accounting principles in Japan and has been renamed “the consolidated statement of changes in equity” in the current fiscal year.

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 have been made in the 2006 financial statements to conform to classifications and presentations used in 2007.

The consolidated financial statements are stated in Japanese yen, the currency of the country in which TOKIMEC INC. (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 ¥118 to $1, the approximate rate of exchange at March 31, 2007. 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.

Amounts of less than one million yen or one thousands of U.S.doller have been eliminated,except for per share data. As a result, totals may not add up exactly.

2. Summary of Significant Accounting Policies

Consolidation

The consolidated financial statements as of March 31, 2007 include the accounts of the Company and its ten significant (nine in 2006) subsidiaries (together, the "Group").

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 Group has the ability to exercise significant influence are accounted for by the equity method.

Investments in two (two in 2006) 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 the cost of the Group's investments in consolidated subsidiaries and associated companies accounted for by the equity method over its equity in the fair value of the net assets at the respective dates of acquisition, is charged to income when the effect is immaterial.

All significant intercompany balances and transactions have been eliminated in consolidation. All material unrealized profit included in assets resulting from transactions within the Group is eliminated.

Cash Equivalents

Cash equivalents are short-term investments that are readily convertible into cash and that are 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 from the date of acquisition.

Allowance for Doubtful Accounts

The allowance for doubtful accounts is stated in amounts considered to be appropriate based on the Group's past credit loss experience and an evaluation of potential losses in the assets outstanding.

Inventories

The cost of finished goods and work in process is determined by the job identification cost method. Raw materials and supplies are stated at cost determined by the first-in, first-out method.

Marketable and Investment Securities

Marketable and investment securities are classified as available-for-sale securities.

Marketable available-for-sale securities are reported at fair value, with unrealized gains and losses, net of applicable taxes, reported in a separate component of equity.

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

Property, Plant and Equipment

Property, plant and equipment are stated at cost. Depreciation is computed on the declining-balance method while the straight-line method is applied to buildings acquired after April 1, 1998. The range of useful lives is from 8 to 65 years for buildings and structures, from 4 to 11 years for machinery and equipment, and from 2 to 15 years for furniture and fixtures. Although the range of useful lives of buildings for tax purpose was altered in 1998, the Company and its domestic subsidiaries did not alter the useful lives of buildings acquired before April 1, 1998.

Equipment held for leases is depreciated by the straight-line method over the respective lease periods.

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

The Group reviews 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.

Goodwill

Goodwill on the purchase of specific business is amortized on a straight-line basis over 5 years.

Software

Purchased software costs are deferred and amortized over their useful lives.

Accrued Bonuses

An accrual is provided for bonuses to be paid to employees.

Retirement and Pension Plans

The Company has a non-contributory funded pension plan covering substantially all of its employees.

Effective April 1, 2000, the Group adopted a new accounting standard for employees' retirement benefits and accounted for the liability for retirement benefits based on the projected benefit obligations and plan assets at the balance sheet date.

The transitional obligation of ¥ 7,627 million ($ 64,636 thousand), determined as of the April 1, 2000, is being amortized over 10 years.

Retirement benefits to directors and corporate auditors are provided at the amount which would be required if all directors and corporate auditors retired at the balance sheet date.

Presentation of Equity

On December 9, 2005, the ASBJ published a new accounting standard for presentation of equity. Under this accounting standard, certain items which were previously presented as liabilities are now presented as components of equity. Such items include stock acquisition rights, minority interests, 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. The consolidated balance sheet as of March 31, 2007 is presented in line with this new accounting standard.

Research and Development Costs

Research and development costs are charged to income as incurred.

Leases

All leases are accounted for as operating leases. Under Japanese accounting standards 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 Group files a tax return under the consolidated corporate-tax system, 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.

Foreign Currency Transactions

All short-term and long-term monetary receivables and payables denominated in foreign currencies are translated into Japanese yen at the exchange rates 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.

Foreign Currency Financial Statements

The balance sheet accounts of the consolidated foreign subsidiaries are translated into Japanese yen at the current exchange rate as of the balance sheet date except for equity, which is translated at historical rates.

Differences arising from such translation were shown as "Foreign currency translation adjustments" in a separate component of equity.

Revenue and expense accounts of consolidated foreign subsidiaries are translated into yen at the current exchange rate as of the balance sheet date.

Derivatives and Hedging Activities

The Group uses interest rate swaps as a means of hedgeing exposure to interest rate risks.The Group does not enter into derivatives for trading or speculative purposes.

Derivative financial instruments are classified and accounted for as follows: (a) all derivatives be recognized as either assets or liabilities and measured at fair value, and gains or losses on derivative transactions are recognized in the income statement and (b) 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 interest rate swaps 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 are 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.

Fully diluted net income per share at March 31, 2007 and 2006 are not disclosed in the accompanying consolidated financial statements because bonds with warrants or convertible bonds have not been issued.

New Accounting Pronouncements

Measurement of Inventories

Under generally accepted accounting principles in Japan (“Japanese GAAP”), inventories are currently measured either by the cost method, or at the lower of cost or market. On July 5, 2006, the ASBJ issued ASBJ Statement No.9, “Accounting Standard for Measurement of Inventories”, which is effective for fiscal years beginning on or after April 1, 2008 with early adoption permitted. This standard requires that inventories held for sale in the ordinary course of business be measured at the lower of cost or net selling value, which is defined as the selling price less additional estimated manufacturing costs and estimated direct selling expenses. The replacement cost may be used in place of the net selling value, if appropriate. The standard also requires that inventories held for trading purposes be measured at the market price.

Lease Accounting

On March 30, 2007, the ASBJ issued ASBJ Statement No.13, “Accounting Standard for Lease Transactions”, which revised the existing accounting standard for lease transactions issued on June 17, 1993.

Under the existing accounting standard, finance leases that deem to transfer ownership of the leased property to the lessee are to be capitalized, however, other finance leases are permitted to be accounted for as operating lease transactions if certain “as if capitalized” information is disclosed in the note to the lessee’s financial statements.

The revised accounting standard requires that all finance lease transactions should be capitalized. The revised accounting standard for lease transactions is effective for fiscal years beginning on or after April 1, 2008 with early adoption permitted for fiscal years beginning on or after April 1, 2007.

Unification of Accounting Policies Applied to Foreign Subsidiaries for the Consolidated Financial Statements

Under Japanese GAAP, a company currently can use the financial statements of foreign subsidiaries which are prepared in accordance with generally accepted accounting principles in their respective jurisdictions for its consolidation process unless they are clearly unreasonable. On May 17, 2006, the ASBJ issued ASBJ Practical Issues Task Force (PITF) No.18, "Practical Solution on Unification of Accounting Policies Applied to Foreign Subsidiaries for the Consolidated Financial Statements". The new task force prescribes: 1) the accounting policies and procedures applied to a parent company and its subsidiaries for similar transactions and events under similar circumstances should in principle be unified for the preparation of the consolidated financial statements, 2) financial statements prepared by foreign subsidiaries in accordance with either International Financial Reporting Standards or the generally accepted accounting principles in the United States tentatively may be used for the consolidation process, 3) however, the following items should be adjusted in the consolidation process so that net income is accounted for in accordance with Japanese GAAP unless they are not material:

(1) Amortization of goodwill
(2) Actuarial gains and losses of defined benefit plans recognized outside profit or loss
(3) Capitalization of intangible assets arising from development phases
(4) Fair value measurement of investment properties, and the revaluation model for property, plant and equipment, and intangible assets
(5) Retrospective application when accounting policies are changed
(6) Accounting for net income attributable to a minority interest

The new task force is effective for fiscal years beginning on or after April 1, 2008 with early adoption permitted.

3. Investment Securities

Investment securities as of March 31, 2007 and 2006, consisted of the following:

	Millions of yen		Thousands of U.S. dollars
Non-current:	2007	2006	2007
Marketable equity securities	¥3,291	¥3,697	$27,890
Trust fund investments and other	14	15	119
Total	¥3,305	¥3,712	$28,008

The carrying amounts and aggregate fair values of marketable and investment securities at March 31, 2007 and 2006 were as follows:

	Millions of yen			
March 31, 2007	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Securities classified as:				
Available-for-sale:				
Equity securities	¥1,281	¥1,983	¥5	¥3,259
Other	13	1		14
March 31, 2006				
Securities classified as:				
Available-for-sale:				
Equity securities	¥1,322	¥2,372	¥29	¥3,665
Other	13	2		15

	Thousands of U.S. dollars			
March 31, 2007	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Securities classified as:				
Available-for-sale:				
Equity securities	$10,856	$16,805	$42	$27,618
Other	110	8		119

Available-for-sale securities whose fair value is not readily determinable as of March 31, 2007 and 2006 were as follows:

	Carrying amount		
	Millions of yen		Thousands of U.S. dollars
	2007	2006	2007
Available-for-sale:			
Equity securities	¥32	¥32	$271

Proceeds from sales of available-for-sale securities for the year ended March 31, 2007 was ¥7 million ($59 million). Gross realized gains on these sales, computed on the moving average cost basis, were ¥2 million ($17 million) for the year ended March 31, 2007.

4. Inventories

Inventories at March 31,2007 and 2006 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2007	2006	2007
Finished goods	¥711	¥798	$6,025
Work in process	7,060	7,002	59,831
Raw materials and supplies	4,192	4,033	35,525
Total	¥11,964	¥11,833	$101,390

5. Short-term Bank Loans and Long-term Debt

The annual weighted-average interest rate applicable to the short-term bank loans was 1.15% and 1.02% at March 31, 2007 and 2006, respectively.

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

	Millions of yen		Thousands of U.S. dollars
	2007	2006	2007
Loans from banks and insurance companies due serially to 2010 with weighted-average interest of 1.50% (2007) and 1.30% (2006)	¥6,635	¥8,314	$56,229
Less current portion	(1,534)	(1,779)	(13,000)
Long-term debt, less current portion	¥5,101	¥6,535	$43,229

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

Year ending March 31	Millions of yen	Thousands of U.S. dollars
2008	¥1,534	$13,000
2009	3,757	31,839
2010	924	7,831
2011	420	3,559
Total	¥6,635	$56,229

The carrying amounts of assets pledged as collateral for the current portion of long-term debt of ¥277 million ($2,347 thousand) at March 31, 2007, were as follows:

	Millions of yen	Thousands of U.S. dollars
Buildings and structures	¥2,078	$17,610
Other (Land, Machinery and equipment, Furniture and fixtures)	1,828	15,492
Total	¥3,906	$33,102

6. Retirement and Pension Plans

The Company and its certain consolidated subsidiaries have severance payment plans for employees, directors and corporate auditors.

Under most circumstances, employees terminating their employment are entitled to retirement benefits determined based on the rate of pay at the time of termination, years of service and certain other factors. Such retirement benefits are made in the form of a lump-sum severance payment or annuity payment both from a trustee for the Company and are made in a form of severance payment from certain consolidated subsidiaries. Employees are entitled to larger payments if the termination is involuntary, by retirement at the mandatory retirement age, by death, or by voluntary retirement at certain specific ages prior to the mandatory retirement age. The liability for retirement benefits at March 31, 2007 for directors and corporate auditors is ¥269 million ($2,280 thousand). The retirement benefits for directors and corporate auditors are paid subject to the approval of the shareholders.

The liability for employees' retirement benefits at March 31, 2007 and 2006 consisted of the followings:

	Millions of yen		Thousands of U.S. dollars
	2007	2006	2007
Projected benefit obligation	¥11,587	¥11,372	$98,195
Fair value of plan assets	(3,827)	(3,404)	(32,432)
Unrecognized actuarial loss	(13)	(177)	(110)
Unrecognized transitional obligation	(2,261)	(3,015)	(19,161)
Net liability	¥5,486	¥4,777	$46,491

The components of net periodic benefit costs for the year ended March 31, 2007 and 2006 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2007	2006	2007
Service Cost	¥520	¥535	$4,407
Interest Cost	255	253	2,161
Expected return on plan assets	(34)		(288)
Amortization of transitional obligation	754	754	6,390
Recognized actuarial loss	36	162	305
Net periodic benefit costs	¥1,531	¥1,704	$12,975

Assumptions used for the year ended March 31, 2007 and 2006 are set forth as follows:

	2007	2006
Discount rate	2.3%	2.3%
Expected rate of return on plan assets	1.0%	0.0%
Recognition period of actuarial gain / loss	10 years	10 years
Amortization period of transitional obligation	10 years	10 years

7. EQUITY

On and after May 1, 2006, Japanese companies are subject to a new corporate law of Japan (the “Corporate Law”) , which reformed and replaced the Commercial Code of Japan (the “Code”) with various revisions that are, for the most part, 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) at any time during the fiscal year 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. The Corporate Law 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 Corporate Law, the total amount of additional paid-in capital and legal reserve may be reversed without limitation. 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 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 equity or deducted directly from stock acquisition rights.

8. Income Taxes

The Company and its domestic subsidiaries are subject to Japanese national and local income taxes which, in the aggregate, resulted in a normal effective statutory tax rate of approximately 40.5% for the years ended March 31, 2007 and 2006.

The tax effects of significant temporary differences and tax loss carryforwards which resulted in deferred tax assets and liabilities at March 31, 2007 and 2006 are as follows:

	Millions of yen		Thousands of U.S. dollars
Deferred tax assets:	2007	2006	2007
Allowance for doubtful accounts	¥37	¥37	$314
Accrued bonuses	407	365	3,449
Pension and severance costs	2,322	2,006	19,678
Offset against deferred tax liabilities	(796)	(342)	(6,746)
Other	855	484	7,246
Less valuation allowance	(490)	(2,047)	(4,153)
Total	2,335	503	19,788
Deferred tax liabilities:			
Unrealized gain on available-for-sale securities	(801)	(950)	(6,788)
Offset against deferred tax assets	796	342	6,746
Other	(1)		(8)
Total	(8)	(608)	(68)
Net deferred tax assets (liabilities)	¥2,327	¥(105)	$19,720

A reconciliation between the normal effective statutory tax rate and the actual effective tax rate reflected in the accompanying consolidated statements of income for the year ended March 31, 2007 and 2006 is as follows:

	2007	2006
Normal effective statutory tax rate	40.5%	40.5%
Valuation allowance	(58.3)	(30.2)
Expenses not deductible for income tax purposes	0.7	0.8
Per capita levy of local taxes	1.3	1.6
Other-net	(6.1)	(1.8)
Actual effective tax rate	(21.9%)	10.9%

9. Transactions with Associated Companies

Sale and purchase transactions with associated companies for the years ended March 31, 2007 and 2006 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2007	2006	2007
Sales	¥823	¥968	$6,975
Purchase	1		8

10. Research and Development Costs

Research and development costs charged to income were ¥2,375 million ($20,127 thousand) and ¥2,181 million for the years ended March 31, 2007 and 2006, respectively.

11. Leases

The Group leases certain machinery, computer equipment and other assets. Total rental expense for the years ended March 31, 2007 and 2006 were ¥1,007 million ($8,534 thousand) and ¥1,070 million, respectively, including ¥118 million ($1,000 thousand) and ¥117 million of lease payments under finance leases.

Pro forma information of leased property such as acquisition cost, accumulated depreciation, obligations under finance leases, depreciation expense, and interest expense of finance leases that do not transfer ownership of leased property to the lessee on a "as if capitalized" basis for the years ended March 31, 2007 and 2006 was as follows:

	Millions of yen				
	2007		2006		
	Furniture and Fixtures	Total	Machinery and Equipment	Furniture and Fixtures	Total
Acquisition cost	¥547	¥547	¥8	¥547	¥555
Accumulated depreciation	394	394	7	284	291
Net leased property	¥153	¥153	¥1	¥263	¥264

	Thousands of U.S. dollars	
	2007	
	Furniture and Fixtures	Total
Acquisition cost	$4,636	$4,636
Accumulated depreciation	3,339	3,339
Net leased property	$1,297	$1,297

Obligations under finance leases as of March 31, 2007 and 2006 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2007	2006	2007
Due within one year	¥114	¥112	$966
Due after one year	46	161	390
Total	¥161	¥273	$1,364

The imputed interest expense portion which is computed using the interest method is excluded from the above obligations under finance leases.

Depreciation expense and interest expense, which are not reflected in the accompanying statements of income, determined by the straight-line method and the interest method, respectively for the years ended March 31, 2007 and 2006 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2007	2006	2007
Depreciation expense	¥110	¥109	$932
Interest expense	6	9	51
Total	¥116	¥118	¥983

The minimum rental commitments under noncancellable operating leases at March 31, 2007 and 2006 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2007	2006	2007
Due within one year	¥504	¥504	$4,271
Due after one year	4,032	4,536	34,169
Total	¥4,536	¥5,040	$38,441

12. Derivatives

The Group enters into interest rate swap agreements as a means of managing their interest rate exposure.

It is the Group's policy to use derivatives only for the purpose of reducing market risks associated with assets and liabilities. The Group does not hold or issue derivatives for trading purposes.

Because the counterparties to those derivatives are limited to major international financial institutions, the Group does not anticipate any losses arising from credit risk.

The basic policies for the use of derivatives are made in accordance with internal policies which regulate the authorization and credit limit amount.

The interest rate swaps which qualify for hedge accounting and meet specific matching criteria are excluded from the disclosure of market value information.

13. Commitments and Contingent Liabilities

Contingent liabilities at March 31, 2007 and 2006 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2007	2006	2007
Trade notes discounted	¥6	¥813	$51
Guarantees of bank loans	122	200	1,034

14. NET INCOME PER SHARE

Reconciliation of the differences between basic net income per share ("EPS") for the years ended March 31, 2007 and 2006 is as follows:

	Yen in millions	Thousands of shares	Yen	Dollars
For the year ended March 31, 2007:	Net income	Weighted average shares	EPS	
Basic EPS				
Net income available to common shareholders	¥3,550	85,280	¥41.63	$0.35
For the year ended March 31, 2006:				
Basic EPS				
Net income available to common shareholders	¥1,991	85,293	¥23.35	

15. Subsequent Event

The shareholders' meeting of the Company held on June 28, 2007 approved the following appropriations of retained earnings.

	Millions of yen	Thousands of U.S. dollars
Cash dividends, ¥5 ($0.04) per share	¥426	$3,610
Transfer to legal reserve	43	364
Total	¥469	$3,975

16. Segment Information

Information with respect to operations in different business segments, geographical segments and sales to foreign customers of the Group for the years ended March 31, 2007 and 2006, is as follows:

(1) Operations in Different Business Segments

a. Sales and Operating Income

	Millions of yen						
	2007						
	Marine Systems	Hydraulic and Pneumatic	Fluid Measurement	Defense and Communications	Others	Eliminations/ Corporate	Consolidated
Sales to customers	¥9,427	¥14,176	¥2,328	¥16,735	¥4,142		¥46,808
Intersegment sales	98	108	0	57	1,394	¥(1,657)	
Total sales	9,525	14,284	2,329	16,792	5,535	(1,657)	46,808
Operating expenses	8,885	12,379	2,005	16,252	5,662	(1,657)	43,525
Operating income(loss)	¥641	¥1,906	¥324	¥540	¥(127)		¥3,284

b. Assets, Depreciation and Capital Expenditures

	Millions of yen						
	2007						
	Marine Systems	Hydraulic and Pneumatic	Fluid Measurement	Defense and Communications	Others	Eliminations/ Corporate	Consolidated
Assets	¥5,583	¥11,914	¥1,863	¥16,862	¥7,962	¥4,630	¥48,814
Depreciation	40	228	14	501	40		824
Capital expenditures	25	266	14	361	123		789

a. Sales and Operating Income

	Thousands of U.S. dollars						
	2007						
	Marine Systems	Hydraulic and Pneumatic	Fluid Measurement	Defense and Communications	Others	Eliminations/ Corporate	Consolidated
Sales to customers	$79,890	$120,136	$19,729	$141,822	$35,102		$396,678
Intersegment sales	831	915	0	483	11,814	$(14,042)	0
Total sales	80,720	121,051	19,737	142,305	46,907	(14,042)	396,678
Operating expenses	75,297	104,907	16,992	137,729	47,983	(14,042)	368,856
Operating income(loss)	$5,432	$16,153	$2,746	$4,576	($1,076)		$27,831

b. Assets, Depreciation and Capital Expenditures

	Thousands of U.S. dollars						
	2007						
	Marine Systems	Hydraulic and Pneumatic	Fluid Measurement	Defense and Communications	Others	Eliminations/ Corporate	Consolidated
Assets	$47,314	$100,966	$15,788	$142,898	$67,475	$39,237	$413,678
Depreciation	339	1,932	119	4,246	339		6,983
Capital expenditures	212	2,254	119	3,059	1,042		6,686

a. Sales and Operating Income

	Millions of yen						
	2006						
	Marine Systems	Hydraulic and Pneumatic	Fluid Measurement	Defense and Communications	Others	Eliminations/ Corporate	Consolidated
Sales to customers	¥8,578	¥13,189	¥1,950	¥15,337	¥4,384		¥43,438
Intersegment sales	99	106	1	88	1,374	¥(1,668)	
Total sales	8,677	13,296	1,951	15,425	5,759	(1,668)	43,438
Operating expenses	8,287	11,595	1,901	15,188	5,613	(1,668)	40,915
Operating income	¥390	¥1,701	¥49	¥237	¥146		¥2,523

b. Assets, Depreciation and Capital Expenditures

	Millions of yen						
	2006						
	Marine Systems	Hydraulic and Pneumatic	Fluid Measurement	Defense and Communications	Others	Eliminations/ Corporate	Consolidated
Assets	¥5,043	¥10,082	¥1,455	¥17,371	¥7,410	¥7,436	¥48,797
Depreciation	35	222	14	570	34		875
Capital expenditures	54	229	11	325	133		752

(2) Geographical Segments

Since domestic sales and total assets held domestically of the Group for the years ended March 31, 2007 and 2006, are more than 90% of the consolidated sales and assets, segment information by geographic area is not presented.

(3) Sales to Foreign Customers

Sales to foreign customers for the years ended March 31, 2007 and 2006 amounted to ¥6,042 million ($51,203 thousand) and ¥5,392 million, respectively.

Deloitte Touche Tohmatsu
MS Shibaura Building
4-13-23, Shibaura
Minato-ku, Tokyo 108-8530
Japan

Tel: +81(3)3457 7321
Fax: +81(3)3457 1694
www.deloitte.com/jp

INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
TOKIMEC INC.:

We have audited the accompanying consolidated balance sheets of TOKIMEC INC. and subsidiaries as of March 31, 2007 and 2006, and the related consolidated statements of income, changes in equity, 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 financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of TOKIMEC INC. and subsidiaries as of March 31, 2007 and 2006, and the consolidated results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in Japan.

Our audits also comprehended the translation of Japanese yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made in conformity with the basis stated in Note 1. Such U.S. dollar amounts are presented solely for the convenience of readers outside Japan.

Deloitte Touche Tohmatsu

June 28, 2007

Directors and Auditors of the Company

President
Hideaki KATSUKI

Executive Directors
Kenji WASHINO
Kenichi WAKI
Yoshisuke AKITA

Directors
Noriyuki AKABA
Hidemitsu YAMADA
Kazuteru SATO
Hiroshi EBINUMA
Nobuo TODA

Executive Officer
Motoshi MITOBE
Kazushige MURABAYASHI

Corporate Auditors
Chiaki TAKANASHI
Noboru ISHIBASHI
Yasuhiro HARA
Masanori YONEDA

(As of June 28, 2007)

Corporate Data of the Company

Head office:
2-16-46, Minami-Kamata, Ohta-ku, Tokyo 144-8551, Japan
Tel: +81-3-3732-2111
Fax: +81-3-3736-0261

www.tokimec.co.jp

Date of Establishment:
May 1, 1896

Common Stock:
Authorized–250,000,000 shares
Issued – 85,382,196 shares

Number of Shareholders:
10,396

Stock Listing:
Tokyo Stock Exchage (Code:7721)

Number of Employees:
1,103

Offices:
Sapporo, Sendai, Nagano, Kanazawa, Sano, Shizuoka, Nagoya, Osaka, Kobe, Hiroshima, Yamaguchi, Imabari, Kitakyushu, Nagasaki

Plants:
Nasu, Yaita, Sano, Tanuma (Tochigi Prefecture)
Hanno (Saitama Prefecture)

(As of March 31, 2007)

Companies of the TOKIMEC Group

TOKIMEC AVIATION INC.
2-1-1 Misugi-dai, Hanno-shi,
Saitama 357-0041
Phone:+81-429-71-0550 Fax:+81-429-71-0554

TECS INC.
2-16-46 Minami-Kamata, Ohta-ku,
Tokyo 144-8551
Phone:+81-3-5710-6441 Fax:+81-3-5710-6442

TOKIMEC POWER SYSTEMS INC.
168 Tada-cho, Sano-shi,
Tochigi 327-0311
Phone:+81-283-62-7330 Fax:+81-283-62-7305

TOKIMEC INFORMATION SYSTEMS INC.
2-16-46 Minami-Kamata, Ohta-ku,
Tokyo 144-8551
Phone:+81-3-3731-9841 Fax:+81-3-3735-8310

TECHNOPORT INC.
2-16-46 Minami-Kamata, Ohta-ku,
Tokyo 144-8551
Phone:+81-3-3735-3731 Fax:+81-3-3732-2117

TOKIMEC CONSTRUCTION SYSTEMS INC.
2-16-46 Minami-Kamata, Ohta-ku,
Tokyo 144-8551
Phone:+81-3-3731-2631 Fax:+81-3-3738-8670

TOKIMEC RAIL TECHNO INC.
2-16-46 Minami-Kamata, Ohta-ku,
Tokyo 144-8551
Phone:+81-3-3732-7061 Fax:+81-3-3732-7050

TOKIMEC U.S.A., INC.
445 South Figueroa St. Suite 3770
Los Angeles, California, 90071 U.S.A.
Phone:+1-213-689-4747 Fax:+1-213-689-0303

JYONAN UNYU CO., LTD.
2-16-46 Minami-Kamata, Ohta-ku,
Tokyo 144-8551
Phone:+81-3-3738-0987 Fax:+81-3-3736-0261

OZ Web Technology CO., LTD.
Ryoshu-Kagurazaka Bldg, 10F,
29-3 Nakazato-cho, Shinjuku-ku, Tokyo 162-0804
Phone:+81-3-5206-7121 Fax:+81-3-5206-7122

MORIOKA TOKKI CORPORATION
1-15-8 Kami-Iioka, Morioka-shi,
Iwate 020-0854
Phone:+81-19-638-5211 Fax:+81-19-637-1015

TOKIMEC KOREA POWER CONTROL CO., LTD.
Rm 803, 8th Wooree venture town 2, 82-29, Mullae-dong
3ga, Yeongdeungpo-gu, Seoul , KOREA
Phone:+82-2-2670-4631 Fax:+82-2-2672-5712

TOKIMEC INC.