



ANNUAL REPORT 2006  
april 2005 – march 2006

# *One Step Further in Engineering and Developing Green Technology for Our Customers*

Human beings and all other organisms on this planet are dependent on the air we breathe. Consequently, Taikisha aims to be a world-leader in the fields of thermal and air engineering, the Company's strengths.

Taikisha operates three core businesses, Environmental Facilities, Industrial Facilities and Metal Finishing, which operate in areas including heating, ventilation and air-conditioning (HVAC) for offices and other buildings, industrial facilities such as clean rooms, and automobile paint finishing facilities. As a heat and air engineering solutions provider, Taikisha fulfills its fundamental mission of consistently contributing to society through business activities that meet social requirements.

Taikisha will rise to the challenge of promoting energy saving and stemming the ongoing destruction of the environment.

## **BUSINESS PHILOSOPHY**

### **Existence Concept**

Taikisha and Taikisha Group companies aim to contribute to society through the creation of abundant environments and the development of industrial society through the introduction of technologies that meet social needs.

### **Management Concept**

We aim to create a unique company in all aspects of company management, including technology, markets and human resource development, through the exploration of "heat, air and water."

We aim to help customers and related companies prosper and to create affluent lives for our employees by being a continuously growing company that provides added value.

### **Behavior Concept**

We aim to create a company worthy of working for, a company which can realize human creativity and activity through work. Under a spirit of mutual trust, cooperation, and rationality, all employees will work together to create a corporate culture that can achieve company goals.

## **CORPORATE POLICY**

### **Customer First**

The concept of "Customer First" is based on our aim of maintaining the consistent and long-term satisfaction of our customers. Actions by each individual within Taikisha and its affiliates should bring value and satisfaction to our customers. Therefore, each individual must be true to himself/herself and do their best at everything they do.

### **Forward-Looking Statements**

This annual report contains forward-looking statements regarding plans, outlook, strategies and results for the future. All forward-looking statements are based on judgments derived from information available to the Company at the time of publication.

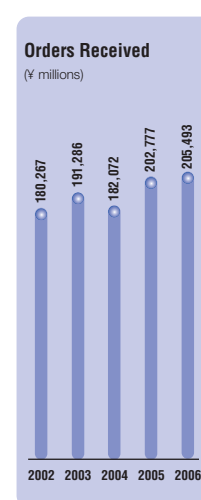
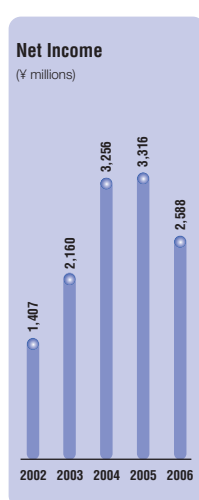
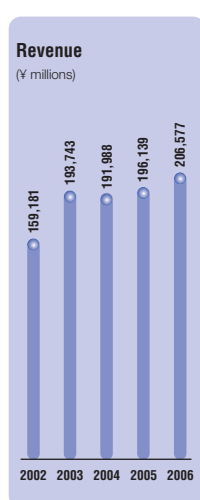
Certain risks and uncertainties could cause actual results to differ materially from any projections presented in this report. These risks and uncertainties include, but are not limited to, the economic circumstances surrounding the Company's business, competitive pressures, related laws and regulations, product development programs and changes in exchange rates.

# FINANCIAL HIGHLIGHTS

Taikisha Ltd. and Consolidated Subsidiaries  
For the years ended March 31, 2006 and 2005

	Millions of yen		Thousands of U.S. dollars
	2006	2005	2006
<b>For the year:</b>			
Revenue.....	<b>¥ 206,577</b>	¥196,139	<b>\$1,765,616</b>
Net income.....	<b>2,588</b>	3,316	<b>22,119</b>
Orders received.....	<b>205,493</b>	202,777	<b>1,756,358</b>
Orders carried over.....	<b>126,862</b>	126,794	<b>1,084,297</b>
<b>At year-end:</b>			
Total assets.....	<b>¥ 166,523</b>	¥148,677	<b>\$1,423,278</b>
Total shareholders' equity.....	<b>69,513</b>	64,184	<b>594,136</b>
<b>Per share data (¥ and \$US):</b>			
Shareholders' equity.....	<b>¥1,863.23</b>	¥1,691.14	<b>\$ 15.93</b>
Net income.....	<b>67.13</b>	88.69	<b>0.57</b>
Cash dividends.....	<b>30.00</b>	30.00	<b>0.26</b>

Note: The U.S. dollar amounts are presented solely for convenience and are calculated at the rate of ¥117 to US\$1, the approximate rate of exchange prevailing on March 31, 2006.



Note: Graphs are based on fiscal years ended March 31.

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Hiroshi Yamamoto, President

### OPERATING ENVIRONMENT

During fiscal 2005, the year ended March 31, 2006, fierce competition for orders from the private sector continued. In the Environmental Facilities segment, although capital investment by non-manufacturing companies such as real estate companies steadily increased, government orders continued to shrink. As a result of the policy to focus on strongly profitable orders from the beginning of the term, orders received decreased by 34.6 percent over the previous fiscal year to ¥45.7 billion on a consolidated basis.

In the Industrial Facilities segment, orders received increased by 13.5 percent over the previous fiscal year to ¥85.3 billion as result of expansion in domestic capital investment by private manufacturers of products including electric and electronic equipment and their parts, precision machinery, and medical products, as well as active foreign investment in Southeast Asia and China.

In the Metal Finishing segment, the market expanded sharply due to a strong increase in overseas construction of new plants of Japanese automobile makers including in China and Southeast Asia. Orders received increased by 29.2 percent over the previous fiscal year to ¥74.3 billion, a record high on a consolidated basis, as a result of efforts to secure orders for metal finishing facilities using personnel transferred from other business segments. Total orders received in these three core business segments grew by 1.3 percent over the previous fiscal year to ¥205.4 billion, exceeding the ¥200 billion mark for the second consecutive year.

In this business environment, the Taikisha Group emphasized growth in sales and profits of each division. Consequently, consolidated revenues this fiscal year increased by 5.3 percent in comparison with the previous fiscal year to ¥206.5 billion.

Gross revenues from completed contracts decreased by ¥306 million over the previous fiscal year to ¥19.3 billion. This decrease was due to a ¥10.7 billion increase in cost of contracts despite efforts to reduce costs, offsetting the growth in completed contracts in the term by ¥10.4 billion over the previous fiscal year. Sales costs and general management costs increased by ¥493 million compared to the previous fiscal year to ¥14.4 billion. Consequently, operating income decreased by ¥799 million compared to the previous fiscal year to

¥4.9 billion despite the inclusion of ¥749 million posted due to a change of accounting procedures. Extraordinary items included a ¥499 million gain on sale of investment securities and a ¥248 million gain on disposal of fixed assets. Net income for the term declined by ¥728 million over the previous fiscal year to ¥2,588 million due in part to increased minority interests in subsidiaries.

The largest factor in the decreased income is the deterioration in profitability of subcontracted construction work from private companies in the Environmental Facilities segment. Profitability of the Environmental Facilities segment declined significantly because of an expansion in the allowance for losses on construction contracts and an increase in the number of unprofitable construction projects. Another factor in the decline in profitability was, losses on construction projects in some overseas subsidiaries of the Industrial Facilities segment.

## **OUTLOOK FOR NEXT TERM**

Taikisha Ltd. has been suspended from bidding for government and other public office contracts for approximately 3 to 6 months because of the bid-rigging scandal concerning orders for air-conditioning work from the Defense Facilities Administration Agency. Furthermore, we have also been ordered to suspend business on subsidized public piping work and private work for 60 days from May 16, 2006 through July 14, 2006 by the Ministry of Land, Infrastructure and Transport because of the scandal. In the light of this problem, we decided to rigorously address compliance in sales activities at our extraordinary board meeting in February. In addition, the Company compliance committee and the compliance department will be newly established to educate employees on compliance and to check the state of compliance in business activities. Through such measures, we are endeavoring to prevent a recurrence of this incident and to restore customers' trust.

In the business forecast for fiscal 2006, the year ending March 31, 2007, orders carried over will be ¥126.8 billion, the same level as in the previous fiscal year. However, in the Environmental Facilities Division, as the business environment continues to be severe and we have not yet recovered profitability in orders received for private subcontracted work, we forecast orders received at ¥37 billion and revenues from completed contracts to be ¥45 billion. Revenue from completed government contracts in particular, which was ¥7.4 billion in this term, is forecast to halve in the next term due to the adverse effects of business suspension.

In the Industrial Facilities segment, capital investment of domestic and overseas manufacturers mainly in Southeast Asia is expected to trend favorably from the previous fiscal year. However, the forecast for orders for domestic private construction works granted through subsidies is weak, significantly influenced by business suspension. In fiscal 2006, orders received and revenues from completed contracts are expected to decrease from the current fiscal year, to ¥70 billion and ¥72 billion, respectively.

In the Metal Finishing segment, while orders carried over will be high, investment by automobile makers in China and investment of Japanese automobile makers in North America will slow down. As a result, in fiscal 2006, orders received and revenues from completed contracts are both forecast to decrease compared to the current fiscal year to ¥53 billion.

Based on this market environment and business forecast, the Taikisha Group intends to implement ongoing investment for technological development and improvement in productivity and for energy saving and environmental measures, mainly in the Industrial Facilities segment and the Metal Finishing segment, our core

businesses. The Group also intends to conduct business activities based on improvement in technical capabilities, the Company's motto since its foundation. Moreover, as a long-term priority, business issues for the next term include the elimination of quality claims, thorough safety management at sites, activities to reduce total costs and prevent losses, and recruiting and fostering personnel with an eye to the retirement of baby-boom employees. These issues are important to the improvement of business results.

### *Current Business Forecast through Fiscal 2006, the year ending March 31, 2007*

- Orders Received: ¥160 billion (year-on-year 22.1% decrease)
- Revenues (from Completed Contracts): ¥170 billion (year-on-year 17.7% decrease)
- Operating Income: ¥2.8 billion (year-on-year 42.9% decrease)
- Ordinary Income: ¥3.2 billion (year-on-year 41.7% decrease)
- Net Income: ¥1.4 billion (year-on-year 45.9% decrease)

\* As for orders for projects valued over ¥500 million and with construction periods over a year in the next term, we will call for the settlement of accounts based on construction progress to ease the concentration of sales at the end of term.

Regarding the medium-term management plan ending March 31, 2007, it has become very difficult to achieve the profit goal as the assumptions of the plan have significantly changed due in part to the decrease in profitability of the Environmental Facilities segment.

We will announce new medium and long-term business goals and indicators in the future in the new medium-term plan.


### **PROVIDING RETURNS TO SHAREHOLDERS**

For fiscal 2005, Taikisha paid a year-end cash dividend of ¥22.50 per share to respond to the steady support of its shareholders. This combined with the interim dividend of ¥7.50 per share brings the total dividends applicable to fiscal 2005 to ¥30.00 per share, the same as the previous year. To return further profits to our shareholders, we conducted a share buyback for 637,000 shares during the term. Furthermore, to increase the liquidity of our shares in the market, the share trading unit was reduced from 1,000 shares to 100 shares in December 2005.

With the reduction in share trading unit, the number of shareholders by unit increased by 27 percent compared to the previous fiscal year to 3,480. We are very pleased that more investors can now participate in Taikisha Ltd.

As always, we are counting on the continued support of our shareholders.

July 2006



Hiroshi Yamamoto, President

## BASIC POLICY

The Taikisha Group operates under a management policy of strengthening management to continuously gain the trust and meet the expectations of its many stakeholders including shareholders, employees, customers and business partners. To achieve this objective, Taikisha has made the enhancement of corporate governance its top management priority. In addition to working to improve performance through increased management efficiency over the long term, Taikisha has implemented measures to ensure strict legal compliance. In addition, Taikisha promotes environmental initiatives and undertakes other activities to raise corporate value and continue earning the trust of society.

## EXECUTION OF DUTIES, AUDITS/OVERSIGHT, APPOINTMENTS, COMPENSATION AND OTHER FUNCTIONS

The Board of Directors comprises 24 directors and 5 auditors, and makes decisions on matters stipulated by the Company's basic management policies or by law, and on other important matters concerning management. The board also functions to oversee the execution of duties by representative directors and other directors.

Taikisha has five corporate auditors, including three outside auditors, who attend meetings of the Board of Directors and other important meetings, and work to strengthen the audit function of management.

In addition, Taikisha holds regular management meetings once a month attended by key executives at or above the level of director. Members thoroughly discuss and make prompt decisions on management policies of Taikisha and the Taikisha Group, important issues, and risks related to issues including businesses to address.

In April 2006, Taikisha established a company-wide Compliance Committee to educate employees on the importance of legal and internal regulations. The committee also promotes a compliance system based on an integrated cycle incorporating consideration and implementation of policies, employee education and internal audits.

In line with the year-long audit plan, the Internal Audit Office (including two standing corporate auditors) audits operations at head offices, business division head and branch offices and at offices, and reports the results to the Company president and the Board of Corporate Auditors.

Accounting auditors from ChuoAoyama PricewaterhouseCoopers conduct regular audits, discuss and confirm accounting matters when necessary, and work to improve the transparency and accuracy of the accounting audit.

## BASIC POINTS CONCERNING INTERNAL CONTROLS

The Board of Directors is thoroughly aware that violation of the law is the most significant management risk that Taikisha faces. For this reason, the board has set "Basic Guidelines for the Construction of an Internal Control System" that

aim to create an efficient, legally compliant corporate structure by spreading knowledge of legal compliance, building an internal control system for this task, and continuing to review and improve these functions. All Taikisha organizations, executives and employees, and Taikisha Group companies must work to implement and enhance better internal control systems in line with these basic guidelines.

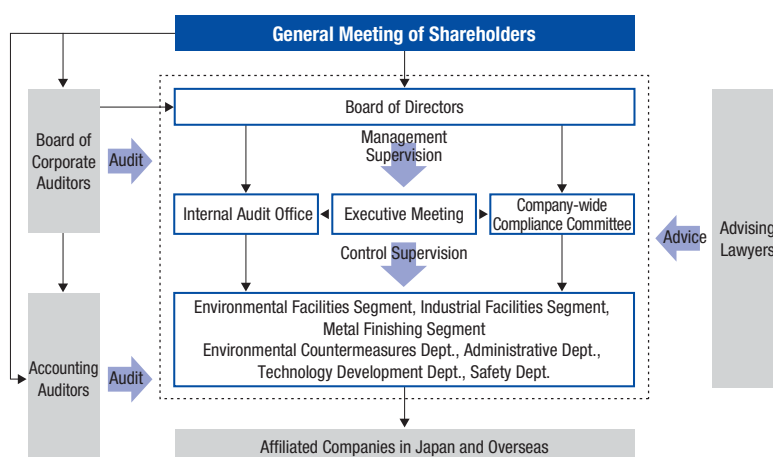
Toward creation of a system promoting compliance with the law and Taikisha's articles of incorporation, in September 2005 the Board of Directors established the "Taikisha Behavioral Regulations;" introduced an internal notification system for reporting any illegal activity of executives or employees; and established a Compliance Office, drawing primarily from the Management Department, for effective implementation of these measures. In order to further strengthen these functions, Taikisha created the company-wide Compliance Committee and a Compliance Division in the Management Department in April 2006. The Compliance Division studies implementation of various measures to strengthen legal compliance including the planning and implementation of compliance training for employees, and works to prevent violations of the law. In addition, Taikisha retains the services of numerous lawyers, and receives regular counsel from them regarding appropriate compliance activities. These ties also constitute a system through which Taikisha can discuss and receive guidance concerning any compliance issues that may arise.

In risk management, the divisions create and disseminate rules, operational standards, manuals and other tools for dealing with the risks associated with their respective areas of operation.

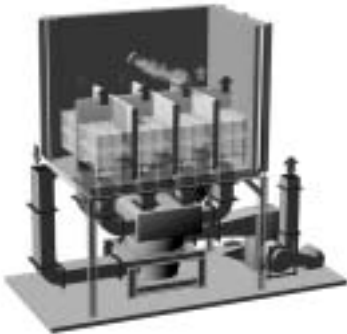
Taikisha plans to establish internal control systems for Taikisha Group companies in Japan and overseas. At present, Taikisha oversees the execution of duties of the boards of directors of Taikisha Group companies and conducts audits and receives advice and guidance when necessary through parties with which it has close capital, personnel and business ties.

To further enhance monitoring functions, Taikisha has established an internal audit office under the president's supervision, and conducts audits in conjunction with the corporate auditors and the Board of Corporate Auditors when necessary.

## Overview of Current Corporate Governance System



## TECHNOLOGY

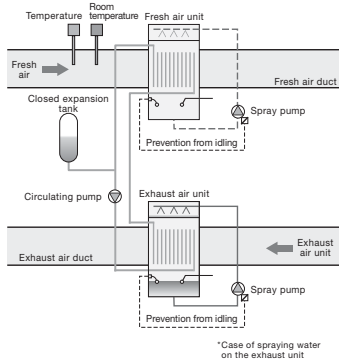


### Developed Rotary RTO (Regenerative Thermal Oxidation) with Larger Air Volume

Since April 2006, VOC emission control has started according to the revision of air pollution regulations, and emission standards have been established for 9 kinds of VOC emission facilities. In the automobile painting field, a major focus for Taikisha, customers are obligated to comply with the emission standard of 400ppmC or less in new automobile painting booths (blower capacity over 3,000m<sup>3</sup>/hour). In addition to VOC processing capabilities, higher level odor treatment functions are required by customers. Taikisha is already marketing RTO with multiple columns and rotary RTO for VOC processing and odor treatment equipment. To meet the above-mentioned needs, rotary RTO with larger air volume (~ 2,000Nm<sup>3</sup>/min) has been newly launched.

### Three New Models Added to “Ecorac” Series of Exhaust Heat Recovery Systems

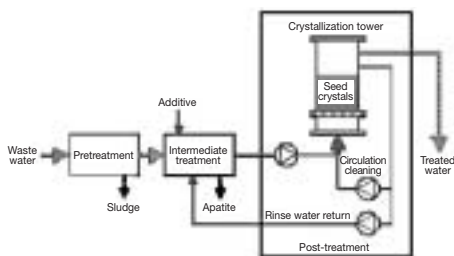
Ecorac is a heat recovery system that does not allow mixing of exhaust air with supply air. In addition to the existing Type I system, which has an automatic heat recovery system, Taikisha Ltd. commercialized low-cost Type II models in which the heat recovery operation period is decided in advance and the operation mode can be switched manually. There are three Type II models. The first has sprinklers to promote the heat recovery effect on the coils of the exhaust unit and the supply unit. The second has a sprinkler only on the coil of the supply unit, and the third has a sprinkler only on the exhaust unit. The type can be selected, depending on the conditions in the installation area and usage features, such as the availability of a sprinkler on the coil of the supply exhaust unit. Sales promotion targets include hospitals, medical facilities, food-related facilities, and bio research institutes with bacteria problems, which can not be equipped with an exhaust air heat recovery system due to concerns about cross contamination.



### Developed High-Performance Equipment for Fluorine Drainage Processing

Since July 2004, the standard for wastewater containing fluorine compounds under the Water Pollution Prevention Law has been tightened from 15mg/L to 8mg/L.

In particular, hydrofluoric acid is broadly used in parts washing and surface processing. Therefore, various industries faced with this issue such as the semiconductor, electronic parts packaging, steel and chemical plants, glass and ceramic manufacturing, are demanding more for advanced processing of fluorine wastewater. As a result of R&D aimed at entering the water treatment field, Taikisha achieved the practical application of high-performance equipment for fluorine wastewater processing. It will be launched after field experiments using a practical model. To remove fluorine, this equipment crystallizes fluorine in wastewater into apatite fluoride, using special crystallization agents consisting of seed crystal and reaction materials. Apatite fluoride is a recyclable substance and is reused as industrial material.



### Automated Silver Mirror Finishing

A practical line of automatic silver mirror finishing equipment developed in cooperation with Taikisha and San Esu Industry Co., Ltd, a group company, was launched.

In mirror manufacturing technology, silver film is formed using a chemical reaction between silver nitrate and a reducing agent. To date, since it was very difficult to secure quality using the existing method which involved two substances being collided in midair to separate out silver, mass production was considered difficult.

As hexavalent chromium is supposed to be completely abolished under Restrictions of Hazardous Substances introduced by the EU, manufacturers in various industries are focusing on harmless and low-cost silver mirror finishing as an alternative to plating. Taikisha is aiming to expand the range of its utilization by improving equipment.

## More Active ESCO Business

ESCO (Energy Service Company) is a business which proposes "energy saving methods" to realize energy saving without impairing existing environments, and provides comprehensive energy services including fund raising for construction, design, management, and guarantee of energy saving effects to customers. Costs for the ESCO business are covered by a fund obtained from energy saving effects. In other words, customer interests are linked with company profits. Since receiving its first orders for an ESCO project in 2000, Taikisha has been actively developing its ESCO business, organizing a consortium with other ESCO companies. A lecture to introduce our projects was given to The Energy Conservation Center, Japan, a public institute.

## Submission to FINETECH JAPAN



"FINETECH JAPAN - The 15th FPD R&D and Manufacturing Technology Expo & Conference" was held from April 20 to 22, 2005 at Tokyo Big Sight. This is the world's largest business tradeshow for the FPD

industry. Taikisha exhibited various solutions for saving energy and resources, and reducing environmental load in FPD manufacturing sites.

In addition, the new Rotary RTO (Regenerative Thermal Oxidation) with high VOC processing ability of 99% was promoted extensively.

## Submission to Interphex Japan



"Interphex Japan - The 18th International Pharmaceutical, Cosmetic and Detergent R&D and Manufacturing Technology Expo/Conference" was held from May 18 to 20, 2005 at Tokyo Big Sight.

This is Asia's largest tradeshow for the pharmaceutical industry. Taikisha held a mini seminar on water and air in pharmaceutical manufacturing sites, and exhibited various solutions including support for validation and facility maintenance and reuse of excessive production facilities.

## Submission to the Energy Solution & Thermal Storage Fair

Taikisha participated in the "Energy Solution & Thermal Storage Fair" held from July 27 to 29, 2005 at Tokyo Big Sight.

We introduced and exhibited products for saving energy and resources, including "Stratherm L," a system to improve energy storage, "Super Stratherm G," a thermally stratified flow-type energy storage tank, "Aquabent N" for realizing long lasting pipes, "Ecorac," a highly efficient heat recovery system that prevents cross contamination, and a cost and space-saving low-pitch noise extinguishing silencer.

## Metal Finishing Division Obtained ISO 14001 Certification in Japan

To date, all domestic facilities of the Environmental Facilities Division and the Industrial Facilities Division have obtained ISO 14001 certification, the international environmental management standard. In December 2005, the Metal Finishing Division also obtained certification. Accordingly, all three divisions have been promoting further environmental management activities.

## Released Environmental Report

Taikisha is committed to the conservation of the global environment as a top priority across the company, and established the Taikisha Environmental Charter in September 1996.

Domestic activities related to global environmental issues were previously outlined in the official Taikisha website. From fiscal 2005, the Environmental Report was published giving examples of activities and the introduction of instruments to contribute to environmental preservation. It provides further disclose on business activities related to the environment.

## Grand Opening Ceremony of P.T. Taikisha Manufacturing Indonesia

The Grand Opening Ceremony of P.T. Taikisha Manufacturing Indonesia, our car component painting company in Indonesia, was held on June 13, 2005. The company is aiming to foster and expand business and accumulate expertise in the parts painting business.

## Investing in Biomass Energy Business Plan

Taikisha and Marubeni Corporation funded development to improve the development of ethanol materials (sugarcane and sugar beet) for automobile fuel. This project is conducted by SCIVAX Corporation in cooperation with Nagoya University and Meijo University.

Taikisha has three business segments, Environmental Facilities, Industrial Facilities and Metal Finishing. In each of these segments, Taikisha works to respond appropriately to changes in the market environment while securing business results.

## ENVIRONMENTAL FACILITIES



### Overview

Orders received for fiscal 2005, the year ended March 31, 2006, decreased 34.6% year-on-year to ¥45,774 million. Consolidated revenues decreased 27.1% to ¥52,659 million.

### Description of Business

The Environmental Facilities segment provides air-conditioning systems and renewal projects as well as engineering that contribute to energy savings in office buildings, hospitals, welfare facilities and other buildings.

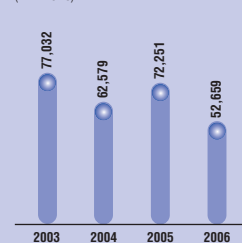
### Outlook

In the markets of the Environment Facilities segment, construction investment centered on private office buildings was on an upward trend, primarily in urban areas. In terms of absolute volume, however, such investment is only about one-third the level seen during the bubble economy, and coupled with the decline in public works investment, this is creating a supply and demand gap in the building market that is eroding profits significantly. Taikisha will work to restructure this business by seeking orders with a focus on profitability and developing a proposal-based market for energy-saving systems that incorporate our original technologies for the building renewal market.

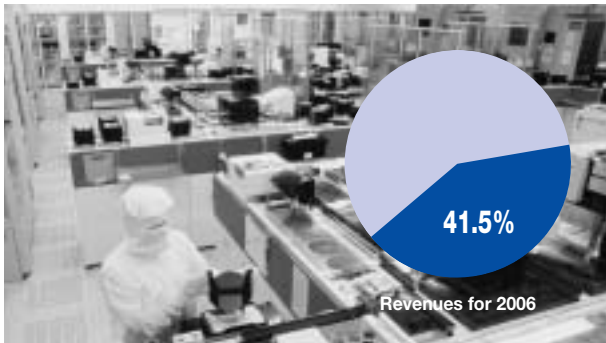
Orders Received  
(¥ millions)



Revenues  
(¥ millions)



## INDUSTRIAL FACILITIES



### Overview

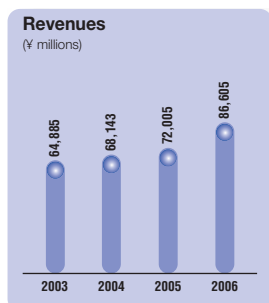
Orders received for fiscal 2005, the year ended March 31, 2006, increased 13.5% year-on-year to ¥85,390 million. Consolidated revenues increased 20.3% to ¥86,605 million.

### Description of Business

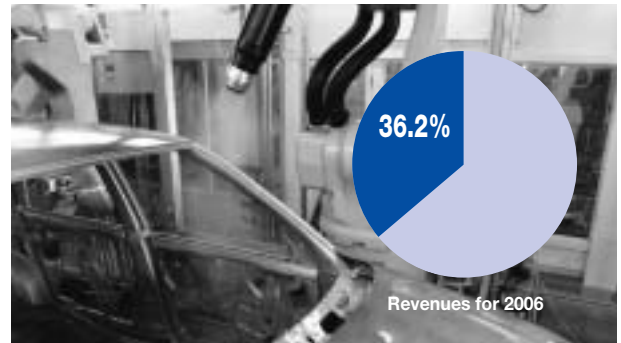
The Industrial Facilities segment offers superior technologies with a proven record of reducing the environmental impact of facilities including clean rooms for electronic equipment, precision machinery and pharmaceutical manufacturers.

### Outlook

In the market environment of the Industrial Facilities segment, brisk investment continued in Japan and overseas in manufacturing industries such as electrical and electronic equipment and components, precision machinery and pharmaceuticals. Clean rooms, a selling point of this segment, will remain the core of its business, but we plan to expand business by improving energy-saving and environmental systems as well as engineering related to manufacturing equipment. Overseas, we aim to expand orders mainly in China and Southeast Asia by using our extensive overseas network, one of Taikisha's competitive advantages.



## METAL FINISHING



### Overview

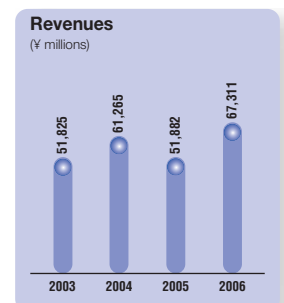
Orders received for fiscal 2005, the year ended March 31, 2006, increased 29.2% year-on-year to ¥74,329 million. Consolidated revenues increased 29.7% to ¥67,311 million.

### Description of Business

The Metal Finishing segment is a leading supplier of paint finishing plants, mainly to Japanese car manufacturers. The primary strengths of this division are proprietary metal finishing technology and Taikisha's global network, which can carry out full turnkey projects.

### Outlook

In the Metal Finishing segment, Japanese auto manufacturers are gradually increasing their global market shares and are expanding investment in paint finishing facilities worldwide. Taikisha will expand its business by working to reduce costs and accumulating know-how to ensure stable quality and shorten construction times in response to the wishes of customers.



# MANAGEMENT'S DISCUSSION AND ANALYSIS

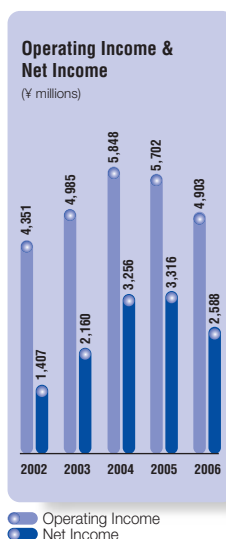
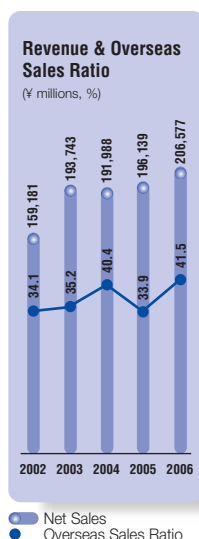
## CONSOLIDATED FIVE-YEAR SUMMARY

Taikisha Ltd. and its Consolidated Subsidiaries  
For the years ended March 31, 2002 to 2006

Millions of yen (except per share amounts)

	2006	2005	2004	2003	2002
Orders received: .....	<b>¥ 205,493</b>	¥ 202,777	¥ 182,072	¥ 191,286	¥ 180,267
Air-conditioning systems .....	—	—	—	—	129,192
Paint finishing systems .....	—	—	—	—	51,074
Environmental facilities.....	<b>45,774</b>	70,002	64,804	61,597	—
Industrial facilities.....	<b>85,390</b>	75,228	71,258	64,118	—
Metal finishing.....	<b>74,329</b>	57,546	46,009	65,570	—
Revenue: .....	<b>206,577</b>	196,139	191,988	193,743	159,181
Air-conditioning systems .....	—	—	—	—	122,456
Paint finishing systems .....	—	—	—	—	36,724
Environmental facilities.....	<b>52,659</b>	72,251	62,579	77,032	—
Industrial facilities.....	<b>86,605</b>	72,005	68,143	64,885	—
Metal finishing.....	<b>67,311</b>	51,882	61,265	51,825	—
Review of the operations of Taikisha Ltd. is shown below:					
Orders received: .....	<b>139,374</b>	149,108	144,226	133,160	127,415
Comfort HVAC systems.....	—	—	—	—	59,731
Industrial HVAC systems .....	—	—	—	—	51,057
Paint finishing systems .....	—	—	—	—	16,625
Environmental facilities.....	<b>43,640</b>	68,911	63,386	60,874	—
Industrial facilities.....	<b>55,572</b>	52,550	52,146	48,559	—
Metal finishing.....	<b>40,161</b>	27,646	28,694	23,726	—
Revenue: .....	<b>142,694</b>	143,224	140,845	146,384	118,018
Comfort HVAC systems.....	—	—	—	—	55,486
Industrial HVAC systems .....	—	—	—	—	46,432
Paint finishing systems .....	—	—	—	—	16,099
Environmental facilities.....	<b>50,751</b>	71,180	61,087	76,119	—
Industrial facilities.....	<b>57,794</b>	46,380	52,051	50,331	—
Metal finishing.....	<b>34,148</b>	25,663	27,705	19,933	—
Net income.....	<b>2,588</b>	3,316	3,256	2,160	1,407
Total assets .....	<b>166,523</b>	148,677	147,343	143,256	146,281
Total shareholders' equity.....	<b>69,513</b>	64,184	59,877	55,130	55,948
Shareholders' equity ratio (%) .....	<b>41.74</b>	43.17	40.64	38.48	38.25
Return on shareholders' equity (%) .....	<b>3.87</b>	5.35	5.66	3.89	2.52
Net income per share .....	<b>¥ 67.13</b>	¥ 88.69	¥ 86.67	¥ 56.38	¥ 37.06
Cash dividends per share .....	<b>30.00</b>	30.00	25.00	15.00	15.00
Shareholders' equity per share .....	<b>1,863.23</b>	1,691.14	1,628.30	1,474.99	1,473.15

Note: Business divisions have been reclassified beginning in the fiscal year ended March 31, 2004. Results for the previous fiscal year have been restated accordingly to permit year-on-year comparison.



## Fiscal 2005 Results

For the year ended March 31, 2006, revenues from completed contracts increased 5.3 percent year-on-year to ¥206,577 million. Despite a ¥10,438 million increase in revenues, gross profit decreased ¥306 million year-on-year to ¥19,314 million.

Selling, general and administrative expenses increased ¥493 million year-on-year to ¥14,411 million. As a result, operating income decreased ¥799 million to ¥4,903 million, despite an accounting change that added ¥749 million to operating income.

In other income, ordinary income decreased ¥865 million to ¥5,490 million. In extraordinary income, Taikisha recorded a gain of ¥499 million on the sale of securities and a gain of ¥248 million on the sale of fixed assets. However, factors including

an increase in minority interests resulted in net income of ¥2,588 million, a decrease of ¥728 million compared to the previous fiscal year.

## Financial Position

Net cash used in operating activities was ¥4,524 million, and net cash provided by investing activities was ¥86 million. Net cash used in financing activities was ¥1,115 million. As a result, cash and cash equivalents at the end of the period decreased ¥4,508 million from the end of the previous fiscal year, to ¥16,904 million.

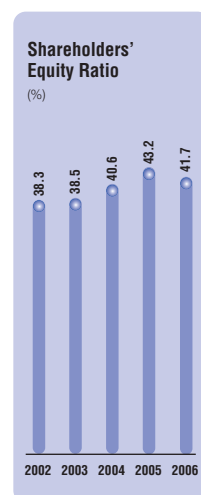
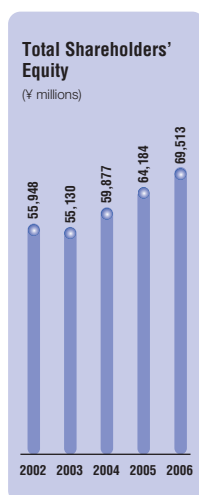
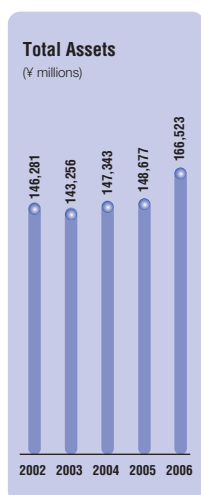
Principle uses of cash in operating activities included an increase in inventories of ¥8,363 million, an increase in notes and accounts receivable – trade of ¥5,714 million, and income taxes paid totaling ¥4,047 million.

## Indicators of Taikisha's financial position are as follows:

	(Years ended March 31)				
	2006	2005	2004	2003	2002
Shareholders' equity ratio (%).....	41.7	43.2	40.6	38.5	38.3
Shareholders' equity ratio on market value basis (%) .....	43.7	37.9	32.9	28.0	19.4
Debt redemption (Years) .....	—	0.7	—	1.1	1.1
Interest coverage ratio (Times).....	—	47.8	—	10.6	23.5

Notes: 1. All indicators are calculated using consolidated formulas according to the standards below:

- Shareholders' equity ratio: Shareholders' equity/Total assets
  - Shareholders' equity ratio on market value basis: Market capitalization/Total assets
  - Debt redemption: Interest-bearing debt/Operating cash flow
  - Interest coverage ratio: Operating cash flow/Interest expenses
2. Market capitalization is calculated by multiplying the closing stock price on the balance sheet date by the number of outstanding shares (excluding treasury stock) at the balance sheet date.
3. For operating cash flow, the Company uses cash flow from operating activities in the consolidated statements of cash flows. Interest-bearing debt includes all debt recorded on the consolidated balance sheets on which the Company pays interest. For interest expenses, the Company uses the amount of interest expenses paid as shown on the consolidated statements of cash flows.



The main sources of cash from operating activities were income before income taxes and minority interests of ¥6,169 million, an increase in advance received of ¥3,593 million, an increase in notes and accounts payable – trade of ¥1,675 million, a decrease in advances due from supplier of ¥1,286 million, and depreciation and amortization of ¥1,007 million. As a result, net cash used in operating activities was ¥4,524 million.

The main components of the ¥86 million in net cash provided by investing activities were proceeds from sales of investment securities and property plant and equipment totaling ¥1,936 million. Principal uses of cash included payments for purchases of investment securities and property, plant and equipment totaling ¥1,914 million.

The main components of the ¥1,115 million in net cash used in financing activities were dividends paid totaling ¥1,554 million and payments for purchase of treasury stock of ¥1,149 million. Sources of cash included a net increase in short-term loans of ¥1,406 million.

**Business Risks and Other Risks**

The following issues involved in the Taikisha Group's operations have the potential to exert a significant effect on

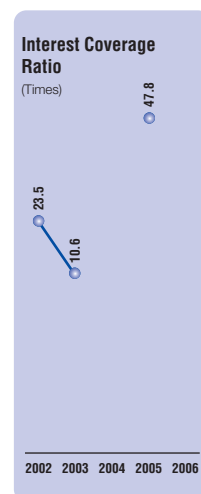
investor decisions. Note that the items below include forward-looking statements. Such statements are based upon management's judgment at the end of the consolidated fiscal year under review.

**Seasonal Fluctuation in Business Results**

In accounting for completed contracts, Taikisha uses the completed-contract method in Japan and the percentage-of-completion method overseas. Completion of construction contracts in Japan is concentrated in the second half of the fiscal year, and consequently, the level of completed contracts and profits in the first half tends to be considerably lower than in the second half.

**Construction Defect Liability**

In construction contracts with customers, Taikisha assumes liability for defects for a fixed period of time after completion of construction. The Company provides a reserve for completed contract compensation to cover repair costs that occur in connection with this liability, based on past experience. However, the amount of such repair costs could potentially exceed the balance of the reserve.



Note: Interest coverage ratio is not calculated for the years ended March 31, 2004 and 2006 due to negative operating cash flow.

### **Overseas Business Risk**

Unforeseen laws and regulations, political instability, economic fluctuations and other factors in the countries where the Taikisha Group operates overseas have the potential to affect Taikisha's business results. For contract payments received and order fees paid in connection with foreign currency-denominated contracts, Taikisha uses forward foreign exchange contracts and other hedges to avoid currency risk to the extent possible. However, exchange rate fluctuations could expose the Company to currency risk. In addition, because the financial statements of overseas consolidated subsidiaries are translated into Japanese yen in preparing the consolidated financial statements, exchange rates could potentially affect Taikisha's business results.

### **Accounts Receivable Collection Risk**

Although Taikisha takes all possible measures in credit management related to customers, construction fees may become uncollectible due to factors such as the bankruptcy of customers, which could affect Taikisha's business results.

### **Below-Cost Orders due to Price Competition**

In the construction contracting business, competition for orders is severe, and Taikisha may occasionally accept orders below cost. In such cases, the Company strives to reduce costs so as not to undermine profits, but depending on the project ordered, erosion of profits could potentially affect Taikisha's business results.

### **Changes in Material Prices**

A sharp rise in material prices when Taikisha procures construction and other materials could affect business results if the Company is unable to reflect the higher prices in order amounts.

### **Changes in Private Capital Investment**

Automobile manufacturers and IT-related companies, which are major customers of Taikisha, continue to conduct robust investment, contributing to increases in Taikisha Group orders. However, business results could be affected in the event that this private capital investment drops rapidly in the future.

### **Asset Ownership Risk**

Taikisha owns property, securities and other assets related to its business activities, and changes in the market value of these assets could have an effect on business results.

### **Disasters and Accidents**

Losses that occur due to unforeseen events such as natural disasters or accidents could potentially affect business results.

### **Legal Risk**

Taikisha has taken measures such as establishment of the companywide Compliance Committee and the Compliance Department to ensure that management is in compliance with laws and regulations. However, any violation of laws or regulations by a director or employee of Taikisha could lead to results such as restrictions on the Taikisha Group's business activities, increased costs or reduced revenues, which could affect business results.

# CONSOLIDATED BALANCE SHEETS

Taikisha Ltd. and its Consolidated Subsidiaries  
As at March 31, 2006 and 2005

Assets	Millions of yen		Thousands of U.S. dollars
	2006	2005	2006
<b>Current assets:</b>			
Cash on hand and in bank (Notes 3 and 7) .....	¥ 17,113	¥ 21,570	\$ 146,271
Notes and accounts receivable — trade .....	73,936	66,741	631,933
Allowance for doubtful accounts .....	(264)	(242)	(2,261)
Inventories (Note 6) .....	31,022	22,405	265,149
Advances due from suppliers, etc. ....	985	2,271	8,427
Deferred tax assets (Note 13).....	1,183	1,089	10,118
Other current assets .....	4,151	3,478	35,481
Total current assets .....	128,129	117,314	1,095,121
<b>Investments and other assets:</b>			
Investments in unconsolidated subsidiaries and affiliates.....	92	80	789
Investment securities (Notes 4 and 7).....	27,374	19,997	233,968
Deferred tax assets (Note 13).....	279	282	2,388
Other .....	3,198	3,679	27,335
Allowance for doubtful accounts .....	(178)	(275)	(1,529)
Total investments and other assets .....	30,765	23,765	262,953
<b>Property, plant and equipment — at cost:</b>			
Land .....	3,426	3,446	29,284
Buildings and structures .....	7,949	7,788	67,944
Machinery, equipment, cars, tools, furniture and fixtures .....	4,905	4,398	41,930
Other .....	195	490	1,671
	16,477	16,124	140,831
Accumulated depreciation .....	(8,848)	(8,525)	(75,627)
Net property, plant and equipment .....	7,628	7,598	65,203
	¥166,523	¥148,677	\$1,423,278

The accompanying notes are an integral part of these financial statements.

	Millions of yen		Thousands of U.S. dollars
<b>Liabilities, Minority Interests and Shareholders' Equity</b>	<b>2006</b>	<b>2005</b>	<b>2006</b>
<b>Current liabilities:</b>			
Short-term loans (Note 9).....	¥ 3,698	¥ 2,143	\$ 31,608
Current portion of long-term debt (Note 9) .....	320	209	2,741
Notes and accounts payable — trade.....	63,279	60,252	540,846
Advances received on uncompleted contracts.....	11,836	7,732	101,166
Income taxes payable .....	1,029	1,864	8,795
Deferred tax liabilities (Note 13) .....	12	2	106
Reserve for warranty costs for completed works.....	226	144	1,935
Allowance for losses on construction contracts.....	580	181	4,965
Other current liabilities.....	4,796	5,056	40,999
Total current liabilities.....	85,780	77,588	733,166
<b>Long-term debt, less current portion</b> (Note 9) .....	<b>391</b>	312	<b>3,345</b>
<b>Accrued retirement benefits</b> (Note 10).....	<b>3,062</b>	2,070	<b>26,176</b>
<b>Accrued severance benefits to directors and statutory auditors</b> .....	<b>607</b>	851	<b>5,189</b>
<b>Deferred tax liabilities</b> (Note 13) .....	<b>4,251</b>	1,392	<b>36,333</b>
<b>Other non-current liabilities</b> .....	<b>100</b>	67	<b>859</b>
Total liabilities.....	94,193	82,283	805,070
<b>Minority interests</b> .....	<b>2,816</b>	2,210	<b>24,071</b>
<b>Contingent liabilities</b> (Note 15)			
<b>Shareholders' equity</b> (Notes 14 and 18):			
Common stock			
Authorized: 100,000,000 shares			
Issued: 37,982,009 shares .....	6,455	6,455	55,172
Capital surplus .....	7,716	7,716	65,956
Retained earnings .....	48,053	46,778	410,709
Net unrealized gains on securities .....	9,487	5,117	81,090
Foreign currency translation adjustments .....	(986)	(1,820)	(8,430)
Treasury stock, at cost			
2006 — 700,464 shares, 2005 — 58,227 shares .....	(1,212)	(63)	(10,361)
Total shareholders' equity .....	69,513	64,184	594,136
	¥166,523	¥148,677	\$1,423,278
	Yen		U.S. dollars
<b>Per share data</b> (Note 14):			
Shareholders' equity .....	¥1,863.23	¥1,691.14	\$15.93

# CONSOLIDATED STATEMENTS OF INCOME

Taikisha Ltd. and its Consolidated Subsidiaries  
For the years ended March 31, 2006 and 2005

	Millions of yen		Thousands of U.S. dollars
	2006	2005	2006
<b>Revenue</b> .....	<b>¥206,577</b>	¥196,139	<b>\$1,765,616</b>
<b>Cost of sales</b> .....	<b>187,262</b>	176,519	<b>1,600,536</b>
Gross profit .....	<b>19,314</b>	19,620	<b>165,080</b>
<b>Selling, general and administrative expenses</b> (Note 12) .....	<b>14,411</b>	13,918	<b>123,173</b>
Operating income .....	<b>4,903</b>	5,702	<b>41,907</b>
<b>Other income (expenses):</b>			
Interest and dividend income .....	<b>552</b>	401	<b>4,726</b>
Interest expense .....	<b>(132)</b>	(78)	<b>(1,131)</b>
Insurance premium refunds .....	<b>110</b>	135	<b>948</b>
Lease income on real estate .....	<b>169</b>	164	<b>1,448</b>
Leasing cost on real estate .....	<b>(118)</b>	(118)	<b>(1,009)</b>
Gain on sale of investment securities .....	<b>499</b>	313	<b>4,267</b>
Gain on sale of property, plant and equipment .....	<b>248</b>	50	<b>2,122</b>
Loss on disposal of property, plant and equipment .....	<b>(44)</b>	(18)	<b>(377)</b>
Loss on impairment of fixed assets .....	<b>—</b>	(181)	<b>—</b>
Other income .....	<b>150</b>	286	<b>1,286</b>
Other expense .....	<b>(170)</b>	(160)	<b>(1,457)</b>
	<b>1,266</b>	794	<b>10,822</b>
Income before income taxes and minority interests .....	<b>6,169</b>	6,496	<b>52,729</b>
<b>Income taxes</b> (Note 13):			
Current .....	<b>3,054</b>	3,560	<b>26,106</b>
Deferred .....	<b>(184)</b>	(883)	<b>(1,578)</b>
<b>Minority interests in subsidiaries</b> .....	<b>(711)</b>	(502)	<b>(6,081)</b>
Net income .....	<b>¥ 2,588</b>	¥ 3,316	<b>\$ 22,119</b>
		Yen	U.S. dollars
<b>Per share data</b> (Note 14):			
Net income .....	<b>¥67.13</b>	¥88.69	<b>\$0.57</b>
Cash dividends .....	<b>30.00</b>	30.00	<b>0.26</b>

The accompanying notes are an integral part of these financial statements.

# CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

Taikisha Ltd. and its Consolidated Subsidiaries  
For the years ended March 31, 2006 and 2005

	Shares of common stock issued (thousands)	Millions of yen					
		Common stock	Capital surplus	Retained earnings	Net unrealized gains on securities	Foreign currency translation adjustments	Treasury stock
<b>Balance at March 31, 2004</b> .....	37,982	¥6,455	¥7,297	¥44,454	¥4,636	¥(1,635)	¥(1,330)
Net income for the year .....				3,316			
Cash dividends.....				(918)			
Directors' bonuses.....				(55)			
Increase in net unrealized gains on securities .....					481		
Foreign currency translation adjustments .....						(184)	
Issuance of treasury stock .....			419				1,293
Repurchase of treasury stock .....							(26)
Other .....				(19)			
<b>Balance at March 31, 2005</b> .....	37,982	¥6,455	¥7,716	¥46,778	¥5,117	¥(1,820)	¥ (63)
Cumulative effect of adoption of deferred tax accounting in a foreign subsidiary.....				6			
Net income for the year .....				2,588			
Cash dividends.....				(1,232)			
Directors' bonuses.....				(50)			
Increase in net unrealized gains on securities .....					4,369		
Foreign currency translation adjustments .....						833	
Issuance of treasury stock .....			0				0
Repurchase of treasury stock .....							(1,149)
Other .....				(37)			
<b>Balance at March 31, 2006</b> .....	<b>37,982</b>	<b>¥6,455</b>	<b>¥7,716</b>	<b>¥48,053</b>	<b>¥9,487</b>	<b>¥ (986)</b>	<b>¥(1,212)</b>

		Thousands of U.S. dollars					
		Common stock	Capital surplus	Retained earnings	Net unrealized gains on securities	Foreign currency translation adjustments	Treasury stock
<b>Balance at March 31, 2005</b> .....		\$55,172	\$65,955	\$399,812	\$43,741	\$(15,556)	\$ (540)
Cumulative effect of adoption of deferred tax accounting in a foreign subsidiary .....				55			
Net income for the year .....				22,119			
Cash dividends .....				(10,534)			
Directors' bonuses .....				(427)			
Increase in net unrealized gains on securities .....					37,348		
Foreign currency translation adjustments .....						7,126	
Issuance of treasury stock.....			0				0
Repurchase of treasury stock.....							(9,821)
Other .....				(316)			
<b>Balance at March 31, 2006</b> .....		<b>\$55,172</b>	<b>\$65,956</b>	<b>\$410,709</b>	<b>\$81,090</b>	<b>\$ (8,430)</b>	<b>\$(10,361)</b>

The accompanying notes are an integral part of these financial statements.

# CONSOLIDATED STATEMENTS OF CASH FLOWS

Taikisha Ltd. and its Consolidated Subsidiaries  
For the years ended March 31, 2006 and 2005

	Millions of yen		Thousands of U.S. dollars
	2006	2005	2006
<b>Cash flows from operating activities:</b>			
Income before income taxes and minority interests.....	¥ 6,169	¥ 6,496	\$ 52,729
Adjustments for:			
Depreciation and amortization .....	1,007	948	8,609
Loss on impairment of fixed assets .....	—	181	—
(Decrease) increase in allowance for doubtful accounts .....	45	(30)	389
Increase in accrued retirement benefits.....	987	851	8,441
Interest and dividend income .....	(552)	(401)	(4,726)
Interest expense .....	132	78	1,131
Gain on sale of investment securities .....	(499)	(313)	(4,267)
Gain on sale of property, plant and equipment.....	(248)	(50)	(2,122)
Loss on revaluation of investment securities .....	5	55	49
Write-down of golf club memberships and other.....	5	18	43
Decrease (increase) in notes and accounts receivable — trade.....	(5,714)	943	(48,843)
Decrease (increase) in inventories .....	(8,363)	2,608	(71,480)
Decrease in advances due from supplier.....	1,286	488	10,991
Decrease in notes receivable — other.....	238	201	2,038
Decrease (increase) in accounts receivable — other .....	363	(159)	3,105
Increase in notes and accounts payable — trade.....	1,675	662	14,320
Increase (decrease) in advances received on uncompleted contracts...	3,593	(4,590)	30,711
Decrease in notes payable — other .....	(489)	(1,283)	(4,187)
Decrease (increase) in accrued consumption taxes.....	(746)	599	(6,378)
Decrease in deposits received .....	(61)	(665)	(526)
Other .....	266	426	2,274
Sub total.....	(900)	7,064	(7,694)
Interest and dividend income received .....	558	391	4,770
Interest expense paid.....	(134)	(78)	(1,148)
Income taxes paid .....	(4,047)	(3,613)	(34,596)
Net cash provided by (used in) operating activities .....	(4,524)	3,764	(38,669)
<b>Cash flows from investing activities:</b>			
Increase in time deposits .....	(209)	(157)	(1,786)
Maturity of time deposits.....	157	185	1,343
Purchase of property, plant and equipment .....	(745)	(1,118)	(6,370)
Proceeds from sale of property, plant and equipment.....	258	88	2,207
Purchase of investment securities .....	(1,168)	(906)	(9,989)
Proceeds from sale of investment securities .....	1,678	596	14,347
Contribution to insurance reserve fund.....	(19)	(33)	(165)
Withdrawals from insurance reserve fund.....	100	231	860
Other .....	34	(144)	294
Net cash provided by (used in) investing activities .....	86	(1,259)	740
<b>Cash flows from financing activities:</b>			
Increase in short-term loans, net.....	1,406	614	12,017
Proceeds from long-term debt.....	400	420	3,418
Repayment of long-term debt .....	(217)	(134)	(1,862)
Repurchase of treasury stock .....	(1,149)	(26)	(9,821)
Issuance of treasury stock .....	0	1,713	0
Cash dividends paid .....	(1,232)	(918)	(10,534)
Cash dividends paid to minority interests .....	(322)	(231)	(2,755)
Purchase of shares from minority interests.....	—	10	—
Net cash provided by (used in) financing activities.....	(1,115)	1,447	(9,536)
Effect of exchange rate changes on cash and cash equivalents .....	1,044	(140)	8,927
Net increase (decrease) in cash and cash equivalents.....	(4,508)	3,812	(38,537)
Cash and cash equivalents at beginning of year.....	21,413	17,601	183,021
Cash and cash equivalents at end of year (Note 3).....	¥16,904	¥21,413	\$144,484

The accompanying notes are an integral part of these financial statements.

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Taikisha Ltd. and its Consolidated Subsidiaries  
For the years ended March 31, 2006 and 2005

## 1. Basis of presenting consolidated financial statements

The accompanying consolidated financial statements of Taikisha Ltd. (the "Company") and its consolidated subsidiaries (collectively the "Companies") are prepared from the consolidated financial statements which have been filed with the Director of Kanto Finance Bureau as required by the Securities and Exchange Law of Japan, and are prepared in accordance with accounting principles generally accepted in Japan, which are different in certain respects as to the application and disclosure requirements of International Financial Reporting Standards. In preparing these consolidated financial statements, however, certain reclassifications 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, the accompanying notes include certain information which is not required under generally accepted accounting principles in Japan but which is presented herein as additional information.

The consolidated financial statements are not intended to present the consolidated financial position, results of operations and cash flows in accordance with accounting principles generally accepted in countries and jurisdictions other than Japan.

The U.S. dollar amounts included herein are presented solely for the convenience of the readers, calculated at the approximate rate of exchange prevailing at March 31, 2006 of ¥117 to US\$1. The U.S. dollar amounts should not be construed as representations that Japanese yen have been, or could be converted into U.S. dollars at the prevailing rate.

## 2. Summary of significant accounting policies

### (1) Basis of consolidation

The consolidated financial statements include the accounts of Taikisha Ltd. and all significant subsidiaries listed below:

(Foreign subsidiaries)

TKS Industrial Company  
Taikisha Canada Inc. (subsidiary of TKS Industrial Company)  
Taikisha de Mexico, S.A. de C.V. (subsidiary of TKS Industrial Company)  
Taikisha do Brasil Ltda. (subsidiary of TKS Industrial Company)  
Taikisha (Singapore) Pte. Ltd.  
Taikisha (Thailand) Co., Ltd.  
Taikisha Trading (Thailand) Co., Ltd.  
(subsidiary of Taikisha (Thailand) Co., Ltd.)  
Thaiken Maintenance & Service Co., Ltd.  
(subsidiary of Taikisha (Thailand) Co., Ltd.)  
Token Interior & Design Co., Ltd.  
(subsidiary of Taikisha (Thailand) Co., Ltd.)  
TKA Co., Ltd. (subsidiary of Taikisha (Thailand) Co., Ltd.)  
Taikisha Engineering (M) Sdn. Bhd.  
P.T. Taikisha Indonesia Engineering  
P.T. Taikisha Manufacturing Indonesia  
Taikisha Philippines Inc.  
Taikisha Vietnam Engineering Inc.  
Wuzhou Taikisha Engineering Co., Ltd.  
Taikisha Hong Kong Limited  
Taikisha (Taiwan) Ltd.  
Taikisha Korea Ltd.  
Taikisha Europe Ltd.  
Taikisha Engineering India Ltd.

(Domestic subsidiaries)

San Esu Industry Co., Ltd.  
N.J. Axivane Co., Ltd.  
Nippon Noise Control Ltd.  
Tokyo Taikisha Service Ltd.  
Custom-Ace Ltd.

The unconsolidated subsidiary would have no material effect on the consolidated financial statements of the Companies and is therefore excluded from consolidation.  
(Unconsolidated subsidiary)

Taikisha Espana S.A.

Investment in the following affiliate is accounted for by the equity method of accounting:  
(Foreign affiliate)

Beijing Wuzhou Taikisha Equipment Co., Ltd.

Investments in unconsolidated subsidiaries and affiliates not accounted for by the equity method are stated at cost due to their immaterial effect on the consolidated financial statements of the Companies.

(Unconsolidated subsidiary and affiliates whose investments are not accounted by the equity method)

Taikisha Espana S.A.

Makiansia Engineering (M) Sdn. Bhd.

Shanghai Dongbo Taiki Metal Finishing & Conveyor System Manufacturing Co., Ltd.

Tianjin Dongchun-Taiki Metal Finishing & Conveyor System Manufacturing Co., Ltd.

All five domestic subsidiaries as well as two foreign subsidiaries, Taikisha Engineering (M) Sdn. Bhd. and Taikisha Engineering India Ltd., have a fiscal year ending on March 31, which is the same as the fiscal year of the Company. The other nineteen foreign subsidiaries have a fiscal year ending on December 31. For those foreign subsidiaries with a fiscal year ended December 31, certain adjustments have been made, where appropriate, in preparing the consolidated financial statements to reflect material transactions which might have taken place between their fiscal year end and March 31.

The full portion of the assets and liabilities of the subsidiaries is marked to fair value as of the acquisition of control.

Since the excess of the cost over the underlying net equity of investments in consolidated subsidiaries at their acquisition dates was immaterial, it has been charged to income as incurred.

### (2) Revenue recognition

The Company, five domestic subsidiaries and Taikisha do Brasil Ltda. use the completed-contract method of accounting.

TKS Industrial Company, Taikisha Canada Inc., Taikisha de Mexico, S.A. de C.V., Taikisha (Singapore) Pte. Ltd., Taikisha (Thailand) Co., Ltd., Taikisha Trading (Thailand) Co., Ltd., Thaiken Maintenance & Service Co., Ltd., Token Interior & Design Co., Ltd., TKA Co., Ltd., P.T. Taikisha Indonesia Engineering, P.T. Taikisha Manufacturing Indonesia, Taikisha Philippines Inc., Taikisha Vietnam Engineering Inc., Taikisha Hong Kong Limited, Taikisha Europe Ltd. and Taikisha Engineering India Ltd. use the percentage-of-completion method of accounting.

Revenues are recognized based on the estimated percentage of completion of each project. The percentage of completion is developed using costs incurred as compared to total estimated costs for each project (cost-to-cost method).

Taikisha Engineering (M) Sdn. Bhd., Wuzhou Taikisha Engineering Co., Ltd., Taikisha (Taiwan) Ltd. and Taikisha Korea Ltd. use both the completed-contract and the percentage-of-completion methods of accounting.

### (3) Cash and cash equivalents

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

### (4) Investment securities

Securities issued by unconsolidated subsidiaries and affiliates are stated at cost, determined by the weighted average method.

Investment securities are classified into three categories: 1) trading securities, 2) held-to-maturity debt securities, and 3) other securities. These categories are treated differently for purposes of measuring and accounting for change in fair value. The Companies hold only 3) other securities.

Other securities for which market quotations are available are stated at fair value based on market prices at the end of the year.

Net unrealized gains or losses on these securities are reported as a separate item in shareholders' equity at a net-of-tax amount. The cost of securities sold is stated at cost, determined by the weighted average method.

Other securities for which market quotations are unavailable are stated at cost, determined by the weighted average method.

#### **(5) Derivatives**

Derivative instruments are recognized as either assets or liabilities at their respective fair values at the date of contract, and gains and losses arising from changes in fair value are recognized in earnings in the corresponding fiscal period. If certain hedging criteria are met, such gains and losses are deferred and accounted for as assets or liabilities.

#### **(6) Hedge accounting**

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

The derivatives designated as hedging instruments by the Company are forward exchange contracts. The underlying hedged items are trade accounts receivable and payable.

As permitted under the accounting principles generally accepted in Japan, when forward foreign exchange contracts meet certain conditions for hedge accounting, accounts receivable and payable covered by these contracts are translated using the contract rates of these forward foreign exchange contracts. The unrealized gains or losses on the accounts receivable and payable resulting from the difference between the spot foreign exchange rate and contract rate are deferred and amortized over the term of the contract.

The Company has a policy of utilizing the above hedging instruments in order to reduce the Company's exposure to the risk of foreign exchange rate fluctuation. Thus, the Company's purchases of the hedging instruments are limited to, at maximum, the amounts of the underlying hedged items.

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

#### **(7) Inventories**

The cost of uncompleted contracts is stated at the accumulated construction cost for each project. Selling, general and administrative expenses are excluded from such costs. Materials and supplies are stated at the lower of cost or net realizable value, cost being determined by the weighted average method.

#### **(8) Allowance for doubtful accounts**

To provide for expected credit losses, a general allowance for doubtful accounts is established based on historical default rates for losses that cannot be determined on group basis. Specific allowance for doubtful accounts is established on an individual account basis to recognize the risk of credit losses on individual receivables.

#### **(9) Reserve for warranty costs for completed works**

The Companies recognize a reserve for warranty costs for completed works based on past experience rates.

#### **(10) Allowance for losses on construction contracts**

The Company provides an allowance for losses on construction contracts, which could be reasonably estimated, with respect to total estimated construction cost over construction price among which the Company had construction in progress.

#### **(11) Property, plant, equipment and depreciation**

Property, plant and equipment are stated at cost. Accumulated depreciation loss for these items of the Company and its domestic subsidiaries is principally computed using the declining-balance method and depreciation for these items of foreign subsidiaries is principally computed using the straight-line method based on the estimated useful lives of the assets.

#### **(12) Accrued retirement benefits**

The Companies accrue an allowance for employees' retirement benefits, which is provided for in an amount equal to the difference between actuarially calculated retirement benefit obligations and plan assets, less the unrecognized balance of actuarial differences, at the end of the fiscal year. Unrecognized actuarial differences are amortized under the straight-line method over 10 years from the year following the year in which they arise, balances of which were ¥1,806 million (US\$15,436 thousand) and ¥6,518 million as at March 31, 2006 and 2005, respectively.

Unrecognized prior service costs (reduction in liability) are amortized using the straight-line method over 10 years. The balances of unrecognized prior service costs were ¥533 million (US\$4,558 thousand) and ¥572 million as at March 31, 2006 and 2005, respectively.

The Company and certain of its domestic subsidiaries have retirement plans of the integrated establishment agency type which are governed by the regulations of the Japanese Welfare Pension Insurance Law.

Plan assets at the end of the fiscal year calculated based on the proportion of the funded amounts were ¥11,091 million (US\$94,802 thousand) and ¥7,951 million as at March 31, 2006 and 2005, respectively.

#### **(13) Accrued severance benefits to directors and statutory auditors**

The Company and its domestic subsidiaries recognize liabilities for accrued severance benefits to directors and statutory auditors at 100 percent of the amount required by the Company's policies for severance benefits on the consolidated balance sheets. The payment and amount of the severance benefits to retired directors or statutory auditors are subject to approval by the shareholders.

#### **(14) Accounting for leases**

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

#### **(15) Research and development and computer software**

Research and development expenditure is charged to income when incurred. Expenditure relating to computer software developed for internal use is charged to income when incurred, except when it contributes to the generation of income or to future cost savings. Such expenditure capitalized as an asset is amortized using the straight-line method over its estimated useful life of 5 years.

#### **(16) Income taxes**

Provision for income taxes—current is calculated based on taxable income for the period.

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

#### **(17) Appropriation of retained earnings**

Appropriation of retained earnings is accounted for and reflected in the accompanying consolidated financial statements when approved by the shareholders.

#### **(18) Accounting standard for impairment of fixed assets**

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

The standard is effective for fiscal years beginning April 1, 2005. However, earlier adoption is permitted for fiscal years beginning April 1, 2004 and for fiscal years ending between March 31, 2004 and March 30, 2005.

Effective for the year ended March 31, 2005, the Company and domestic subsidiaries have adopted this standard. As a result of this change, income before income taxes and minority interests decreased by ¥181 million (US\$1,694 thousand).

The accumulated amount of impairment losses is subtracted directly from the amount of the applicable assets in accordance with the revised Rules for Consolidated Financial Statements.

### (19) Change in accounting policy for labor costs in design and construction management.

The labor costs in design and construction management previously have been accounted for as an indirect construction cost. Beginning in the last six months of the fiscal year, a new system has been implemented to record and monitor labor costs more accurately. Consequently, labor costs began to be accounted for as a direct construction cost subsequent to the implementation of the new system.

As a result of the change in accounting policy, construction contracts in progress and gross profit, and operating income and income before income taxes and minority interests, have increased by ¥834 million (US\$7,128 thousand) and ¥749 million (US\$6,401 thousand) respectively, compared to what would have been recorded under the previous accounting policy.

### 3. Cash and cash equivalents

Cash and cash equivalents consist of:

	Millions of yen		Thousands of U.S. dollars
	2006	2005	2006
Cash on hand and in bank	¥17,113	¥21,570	\$146,271
Time deposits with deposit term of over 3 months	(209)	(157)	(1,786)
Cash and cash equivalents	¥16,904	¥21,413	\$144,484

### 4. Investment securities

Investment securities at March 31, 2006 and 2005 are as follows:

(1) Other securities for which market quotations are available

	Millions of yen		
	2006		
	Cost	Fair value	Unrealized gain (loss)
Securities whose fair value exceeds their cost:			
Marketable equity securities	¥8,459	¥24,587	¥16,127
Total	¥8,459	¥24,587	¥16,127

	Millions of yen		
	2006		
	Cost	Fair value	Unrealized gain (loss)
Securities whose cost exceeds their fair value:			
Marketable equity securities	¥248	¥223	¥ (25)
Bonds and debentures	500	385	(114)
Total	¥748	¥608	¥(139)

	Millions of yen		
	2005		
	Cost	Fair value	Unrealized gain (loss)
Securities whose fair value exceeds their cost:			
Marketable equity securities	¥8,026	¥16,692	¥8,665
Bonds and debentures	200	201	1
Investment trusts	498	499	0
Total	¥8,725	¥17,393	¥8,667

	Millions of yen		
	2005		
	Cost	Fair value	Unrealized gain (loss)
Securities whose cost exceeds their fair value:			
Marketable equity securities	¥166	¥142	¥(23)
Bonds and debentures	500	455	(45)
Total	¥666	¥597	¥(68)

	Thousands of U.S. dollars		
	2006		
	Cost	Fair value	Unrealized gain (loss)
Securities whose fair value exceeds their cost:			
Marketable equity securities	\$72,307	\$210,151	\$137,844
Total	\$72,307	\$210,151	\$137,844

	Thousands of U.S. dollars		
	2006		
	Cost	Fair value	Unrealized gain (loss)
Securities whose cost exceeds their fair values:			
Marketable equity securities	\$2,126	\$1,911	\$ (215)
Bonds and debentures	4,273	3,293	(979)
Total	\$6,400	\$5,204	\$(1,195)

The Company's policies require the Company to write down securities whose market value falls 50% or more from the cost at the end of the year, or the market value falls 30% or more from the cost from one year or more, as long as there is no evidence to indicate that the current price will be recovered to carrying value within one year. The Company and domestic subsidiaries did not record an impairment loss on securities during the year ended March 31, 2006 and recorded an impairment loss of ¥47 million (US\$443 thousand) in connection with other securities for which market quotations are available based on the Company's policies during the year ended March 31, 2005.

(2) Other securities sold in the years ended March 31, 2006 and 2005

	Millions of yen		
	2006		
	Proceeds	Gain on sale	Losses on sale
	¥1,678	¥499	¥—

	Millions of yen		
	2005		
	Proceeds	Gain on sale	Losses on sale
	¥596	¥313	¥—

	Thousands of U.S. dollars		
	2006		
	Proceeds	Gain on sale	Losses on sale
	\$14,347	\$4,267	\$—

(3) Details and fair value of other securities without market quotations

	Millions of yen		Thousands of U.S. dollars
	2006	2005	2006
Other securities			
Securities without market quotations	¥1,643	¥1,686	\$14,050
Investment trusts	428	—	3,659
Bonds and debentures denominated in foreign currencies	105	124	901

(4) Repayment schedule of other securities with maturity

	Millions of yen			
	2006			
	Within one year	One to five years	Five to ten years	More than ten years
Bonds and debentures	¥73	¥ —	¥32	¥385

	Millions of yen			
	2005			
	Within one year	One to five years	Five to ten years	More than ten years
Bonds and debentures	¥ —	¥ —	¥201	¥455
Investment trust	—	499	—	—

	Thousands of U.S. dollars			
	2006			
	Within one year	One to five years	Five to ten years	More than ten years
Bonds and debentures	\$625	\$ —	\$275	\$3,293

### 5. Derivatives and hedging activities

Derivative transactions utilized by the Companies are forward currency exchange contracts.

The Companies use forward currency exchange contracts to hedge against the exchange rate risk associated with monetary receivables and payables denominated in foreign currencies.

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

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

#### Fair value of derivative financial instruments

The aggregate amounts contracted to be paid or received and fair values of derivative financial instruments of the Companies as at March 31, 2006 were as follows:

#### Currency-related derivatives

	Millions of Yen		
	Contract amount	Fair value	Realized gain (loss)
Forward exchange contracts:			
Currency to be received			
Yen	¥440	¥417	¥(22)
U.S. dollars	193	193	0
Euros	0	0	(0)
Total	¥634	¥611	¥(22)

	Thousands of U.S. dollars		
	Contract amount	Fair value	Realized gain (loss)
Forward exchange contracts:			
Currency to be received			
Yen	\$3,765	\$3,569	¥(196)
U.S. dollars	1,656	1,657	1
Euros	0	0	(0)
Total	\$5,422	\$5,228	\$(194)

- Notes: 1. The contract values are the notional amounts of the derivatives. The amounts do not represent the Company's exposure to foreign exchange risks.  
2. Derivative transactions qualifying for hedge accounting are excluded from tables.

There are no derivative transactions outstanding as at March 31, 2005 other than derivatives qualifying for hedge accounting.

### 6. Inventories

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

	Millions of yen		Thousands of U.S. dollars
	2006	2005	2006
Construction contracts in progress	¥30,137	¥21,907	\$257,587
Materials and supplies	884	498	7,562
	¥31,022	¥22,405	\$265,149

### 7. Pledged assets

Assets pledged as collateral as at March 31, 2006 were as follows:

Pledged assets	Millions of yen	Thousands of U.S. dollars	Liabilities covered by pledged assets
Cash on hand and in bank	¥32	\$277	Deposits as security for dealing at affiliate
Investment securities	2	17	Loans at merchant company

There are no assets pledged as collateral as at March 31, 2005.

### 8. Loss on impairment of fixed assets

The Company and its domestic subsidiaries evaluate fixed assets used for business operations collectively as a single group of assets, and evaluate other fixed assets individually.

The Companies reviewed their fixed assets for impairment for the year ended March 31, 2005, and as a result, recognized an impairment loss of ¥104 million on land and ¥77 million on buildings due to a decline in their value other than temporary.

The carrying amounts of this land were written down to the recoverable amounts which were measured at their estimated other than temporary net selling prices (mainly based on land tax assessments). The carrying amounts of the buildings were written down to their residual value.

Loss on impairment of fixed assets for the year ended March 31, 2005 mainly consisted of the following:

Principal use	Category	Location	Loss on impairment Millions of yen
Non-business property (rental condominium)	Land and building	Kita-ku, Tokyo	¥78
Non-business property (rental condominium)	Land and building	Taito-ku, Tokyo	20
Non-business property (rental condominium)	Land and building	Shibuya-ku, Tokyo	10
Non-business property (unused land)	Land	Iwase-gun, Fukushima	25
Non-business property (unused land)	Land	Kitasaku-gun, Nagano	16

## 9. Short-term loans and long-term debt

Annual interest rates applicable to short-term loans outstanding at March 31, 2006 and 2005 ranged from 0.500% to 4.770% and from 0.920% to 9.375%, respectively. The approximate average short-term loans outstanding during the years ended March 31, 2006 and 2005 were ¥3,410 million (US\$29,149 thousand) and ¥2,376 million, respectively.

Long-term debt as at March 31, 2006 and 2005 was as follows:

	Millions of yen		Thousands of U.S. dollars
	2006	2005	2006
Long-term debt without collateral:			
Banks and insurance companies, maturing serially through 2009 — principally 1.615% to 1.660%	¥ 712	¥ 522	\$ 6,087
Total	712	522	6,087
Less: Current portion	(320)	(209)	(2,741)
Long-term debt, less current portion	¥ 391	¥ 312	\$ 3,345

The aggregate annual maturities of long-term debt (including current portion) as at March 31, 2006 were as follows:

Year ending March 31	Millions of yen	Thousands of U.S. dollars
2008	¥299	\$2,558
2009	92	786
	¥391	\$3,345

Customary to practices in Japan, long-term and short-term bank loans are made under general agreements which provide that additional security and guarantees for present and future indebtedness will be given under certain circumstances at the request of the bank, and that any collateral so provided will be applicable to all indebtedness due to that bank. In addition, the agreements provide that the bank has the right to offset cash deposited against any long-term and short-term debt that becomes due, and in case of default and certain other specified events, against all other loans payable to the bank.

Such rights have never been exercised by banks against the Company or its consolidated subsidiaries.

## 10. Retirement benefit plan

The Company and its domestic subsidiaries have adopted three defined benefit retirement plans which consist of plans that are governed by the regulations of the Japanese Welfare Pension Insurance Law, outside funded retirement benefit plans and lump-sum retirement payment plans. Most overseas subsidiaries have adopted defined contribution pension plans and others have adopted defined benefit pension plans.

The accrued retirement benefits as of March 31, 2006 and 2005 are analyzed as follows:

## 11. Leases

The Companies use certain machinery, equipment and other assets under finance lease contracts. Total lease payments were ¥174 million (US\$1,487 thousand) and ¥77 million for the years ended March 31, 2006 and 2005, respectively.

Pro forma information regarding the leased property such as acquisition cost, accumulated depreciation and future minimum lease payments under finance leases that do not transfer the ownership of the leased property to the lessee for the years ended March 31, 2006 and 2005 is as follows:

	Millions of yen			Thousands of U.S. dollars
	Acquisition cost	Accumulated depreciation	Balance	Balance
<b>March 31, 2006</b>				
Tools and furniture	¥438	¥153	¥284	\$2,433
Machinery	219	43	175	1,500
Other	141	52	88	759
	¥799	¥250	¥549	\$4,693
<b>March 31, 2005</b>				
Tools and furniture	¥320	¥ 68	¥251	
Machinery	173	22	151	
Other	124	59	64	
	¥618	¥150	¥467	

	Millions of yen		Thousands of U.S. dollars
	2006	2005	2006
Projected benefit obligations	¥(20,576)	¥(22,500)	\$(175,866)
Plan assets (*)	16,240	14,484	138,811
	(4,335)	(8,015)	(37,054)
Unrecognized actuarial differences (*)	1,806	6,518	15,436
Unrecognized prior service costs	(533)	(572)	(4,558)
	¥ (3,062)	¥ (2,070)	\$ (26,176)

- Notes: 1. Items marked with an asterisk (\*) include amounts related to the portion of contributions to a retirement benefit trust.  
2. The Company and certain domestic subsidiaries have retirement plans of the integrated establishment agency type which are governed by the regulations of the Japanese Welfare Pension Insurance Law. Plan assets calculated based on the proportion of the funded amounts were ¥11,091 million (US\$94,802 thousand) and ¥7,951 million for years ended March 31, 2006 and 2005, respectively.  
3. Certain domestic and overseas subsidiaries which have lump-sum retirement payment plans adopted the simplification method of calculating the accrued retirement benefits.

Net pension expense related to retirement benefits for the years ended March 31, 2006 and 2005 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2006	2005	2006
Service costs	¥1,525	¥1,412	\$13,041
Interest cost	447	429	3,825
Expected return on plan assets	(325)	(309)	(2,778)
Amortization of unrecognized actuarial differences	844	828	7,216
Amortization of prior service costs	(65)	(65)	(559)
Net pension expense	¥2,427	¥2,295	\$20,746

Service costs include pension expense calculated by using the simplification method and amounts paid to welfare pension funds.

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

	2006	2005
Method of attributing the projected benefits to periods of service	straight-line basis	straight-line basis
Discount rate	2.0 %	2.0 %
Expected rate of return on plan assets	2.5 %	2.5 %
Amortization of unrecognized actuarial differences	10 years	10 years
Amortization of prior service costs	10 years	10 years

Future minimum lease payments under finance leases as of March 31, 2006 and 2005 are as follows:

March 31,	Millions of yen		Thousands of U.S. dollars
	2006	2005	2006
Due within one year	<b>¥169</b>	¥124	<b>\$1,451</b>
Due over one year	<b>379</b>	343	<b>3,241</b>
	<b>¥549</b>	¥467	<b>\$4,693</b>

Obligations under non-cancelable operating leases as of March 31, 2006 and 2005 are as follows:

March 31,	Millions of yen		Thousands of U.S. dollars
	2006	2005	2006
Due within one year	<b>¥ 88</b>	¥ 74	<b>\$ 757</b>
Due over one year	<b>85</b>	112	<b>728</b>
	<b>¥173</b>	¥187	<b>\$1,486</b>

Acquisition cost and future minimum lease payments under finance leases included the imputed interest expense portion.

Pro forma depreciation expense, which is not reflected in the consolidated statements of income, computed by the straight-line method, would be ¥174 million (US\$1,487 thousand) and ¥77 million for the years ended March 31, 2006 and 2005, respectively.

## 12. Research and development expense

Research and development expense included in selling, general and administrative expense was ¥817 million (US\$6,986 thousand) and ¥955 million for the years ended March 31, 2006 and 2005, respectively.

## 13. Income taxes

The statutory income tax rate used for calculating deferred tax assets and liabilities for the years ended March 31, 2006 and 2005 was 40.69%.

At March 31, 2006 and 2005 significant components of deferred tax assets and liabilities were as follows:

	Millions of yen		Thousands of U.S. dollars
	2006	2005	2006
Deferred tax assets:			
Allowance for doubtful accounts	<b>¥ 68</b>	¥ 106	<b>\$ 583</b>
Allowance for losses on construction contracts	<b>236</b>	73	<b>2,020</b>
Accrued for retirement benefits	<b>1,184</b>	801	<b>10,127</b>
Employee pension trust, investment securities	<b>251</b>	245	<b>2,145</b>
Accrued severance benefits to directors and statutory auditors	<b>247</b>	346	<b>2,111</b>
Accrued enterprise tax	<b>119</b>	161	<b>1,024</b>
Accrued bonuses	<b>358</b>	375	<b>3,066</b>
Cost of uncompleted contracts	<b>108</b>	57	<b>925</b>
Loss on revaluation of investment securities	<b>338</b>	397	<b>2,896</b>
Write-down of golf club memberships and other	<b>276</b>	344	<b>2,361</b>
Loss on impairment of fixed assets	<b>71</b>	73	<b>611</b>
Indirect foreign tax credit	<b>—</b>	143	<b>—</b>
Net unrealized losses on securities	<b>56</b>	27	<b>486</b>
Net operating loss carryforwards	<b>260</b>	59	<b>2,225</b>
Foreign tax credit carryforwards	<b>106</b>	98	<b>911</b>
Other deferred tax assets	<b>384</b>	300	<b>3,289</b>
Sub total	<b>4,070</b>	3,613	<b>34,788</b>
Valuation allowance	<b>(272)</b>	(38)	<b>(2,327)</b>
Total deferred tax assets	<b>3,797</b>	3,575	<b>32,460</b>
Deferred tax liabilities:			
Net unrealized gains on securities	<b>(6,551)</b>	(3,526)	<b>(55,994)</b>
Deferred gains on sales of fixed assets	<b>(34)</b>	(69)	<b>(292)</b>
Other	<b>(12)</b>	(2)	<b>(106)</b>
Total deferred tax liabilities	<b>(6,598)</b>	(3,599)	<b>(56,393)</b>
Net deferred tax liabilities	<b>¥(2,800)</b>	¥ (23)	<b>\$ (23,933)</b>

At March 31, 2006, the reconciliation between the statutory income tax rate and the effective income tax rate was as follows:

	2006
Statutory tax rate	<b>40.69%</b>
Adjustments for:	
Permanent differences:	
Entertainment expenses	<b>2.98</b>
Dividend income	<b>(0.94)</b>
Equalization of inhabitants taxes	<b>1.23</b>
Increase (decrease) in valuation allowance	
Net operating loss carryforwards	<b>3.79</b>
Foreign tax credit carryforwards	<b>(0.76)</b>
Taxation on intercompany dividends	<b>4.77</b>
Lower income tax rates applicable to income in certain foreign countries	<b>(3.25)</b>
Special tax reduction	<b>(1.61)</b>
Indirect foreign tax credit	<b>(0.79)</b>
Other	<b>0.41</b>
Effective income tax rate	<b>46.52%</b>

For the year ended March 31, 2005, the difference between the statutory income tax rate (40.69%) and the effective income tax rate after application of tax-effect accounting (41.21%) was less than 5% of the statutory income tax rate, and reconciliation is therefore omitted.

On March 31, 2003, the Japanese National Diet approved various changes to the calculation of the statutory local enterprise tax for companies with capital in excess of ¥100 million, effective April 1, 2004.

Effective for the year ended March 31, 2005, the Company and domestic subsidiaries applied "Application Guideline for representation on profit-and-loss statement of pro forma standard taxation of the statutory local enterprise tax for companies" prescribed by the Business Accounting Council in Japan, and accounted for taxation on added value and capital of the statutory local enterprise tax for companies in selling, general and administrative expenses.

As a result of this application, selling, general and administrative expenses increased by ¥123 million, and operating income, income before income taxes and minority interests decreased by ¥123 million for the year ended March 31, 2005.

## 14. Shareholders' equity and per share data

Under the Japanese Commercial Code, the lower of 50% of the proceeds from issuance of new shares, or of the par value thereof, is required to be transferred to the "Common stock" account. The Code provides that an amount equivalent to at least 10% of the cash dividends paid and bonuses to directors and statutory auditors with respect to each fiscal period be appropriated to the

earned reserve account in retained earnings until the legal reserve equals 25% of common stock.

Capital surplus may be transferred to other additional paid-in capital to the extent that the legal reserve does not fall below 25% of common stock. However, capital surplus may not be transferred to retained earnings.

Earned reserve may be transferred to unappropriated retained earnings to the extent that the legal reserves do not fall below 25% of common stock.

The Code also stipulates that the legal reserve is not available for cash dividends, but may be used to reduce a capital deficit by a resolution at the shareholders' meeting or may be transferred to common stock subject to a resolution of the Board of Directors.

Under the Japanese Commercial Code, the Company is allowed to repurchase its own shares to the extent that the aggregate cost of treasury shares does not exceed the maximum amount available for dividends. Treasury shares are stated at cost in shareholders' equity in the consolidated balance sheets.

In accordance with the Code, proposed appropriations of retained earnings have not been reflected in the financial statements at the end of each fiscal year. However, dividends per share shown in the consolidated statements of income have been presented on an accrual basis and include, in each fiscal year ended March 31, dividends approved after March 31, but applicable to the year then ended.

Net income per share is based on the weighted average number of common shares outstanding during each year. The Japanese securities and exchange regulations require the disclosure of net income per share adjusted for dilution (assuming full conversion of all convertible debentures of the Company outstanding with related reduction in interest expense and exercise of all warrants), if any. However, since no convertible bonds and warrants were issued by the Company, there is no dilutive effect on net income per share.

The earnings per share calculation excluded bonuses to directors and statutory auditors, since under the Japanese

Commercial Code, these are recognized as an appropriation of retained earnings, in the Consolidated Statements of Shareholders' Equity, rather than as an expense in the Consolidated Statements of Income. However, the Statement of Financial Accounting Standard No. 2 "Earnings per Share" requires that net income be adjusted by deducting bonuses paid to directors and statutory auditors, as well as the payment of dividends to shareholders of preferred stocks to be recognized as an appropriation of retained earnings, and that the calculation of earnings per share be made on that adjusted net income basis.

## 15. Contingent liabilities

Contingent liabilities at March 31, 2006 and 2005 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2006	2005	2006
Repurchase of notes endorsed	¥ 24	¥ 26	\$ 210
Guarantees of loans from banks to employees and affiliates	399	414	3,410
	¥423	¥440	\$3,620

## 16. Segment information

Segment information by industry segment, geographic area and overseas sales of the Company and its consolidated subsidiaries for the years ended March 31, 2006 and 2005 is as follows:

### (1) Industry segments

As the Company and its consolidated subsidiaries operate as one equipment construction industry segment, information by industry segment is not presented.

### (2) Geographic segments

Segment information by geographic area for the years ended March 31, 2006 and 2005 is summarized as follows:

	Millions of yen						Consolidated
	2006						
	Japan	North America	Southeast Asia	East Asia	Other	Eliminations/Corporate	
Sales to customers	¥142,443	¥12,244	¥27,441	¥16,011	¥8,437	¥ —	¥206,577
Intersegment	4,013	21	371	172	41	(4,620)	—
Total sales	146,457	12,265	27,812	16,183	8,478	(4,620)	206,577
Operating expenses	143,700	12,035	27,109	16,075	7,576	(4,822)	201,674
Operating income	¥ 2,756	¥ 230	¥ 703	¥ 108	¥ 901	¥ 202	¥ 4,903
Assets	¥137,504	¥ 8,325	¥12,101	¥ 9,105	¥5,915	¥ (6,429)	¥166,523

	Millions of yen						Consolidated
	2005						
	Japan	North America	Southeast Asia	East Asia	Other	Eliminations/Corporate	
Sales to customers	¥140,867	¥11,091	¥23,161	¥13,792	¥7,226	¥ —	¥196,139
Intersegment	5,368	20	184	993	39	(6,606)	—
Total sales	146,236	11,112	23,345	14,785	7,265	(6,606)	196,139
Operating expenses	143,741	10,246	22,783	13,831	6,548	(6,713)	190,437
Operating income	¥ 2,495	¥ 865	¥ 561	¥ 954	¥ 717	¥ 107	¥ 5,702
Assets	¥127,361	¥ 8,254	¥10,814	¥ 6,509	¥3,859	¥ (8,121)	¥148,677

	Thousands of U.S. dollars						Consolidated
	2006						
	Japan	North America	Southeast Asia	East Asia	Other	Eliminations/Corporate	
Sales to customers	\$1,217,464	\$104,651	\$234,539	\$136,848	\$72,112	\$ —	\$1,765,616
Intersegment	34,305	183	3,177	1,475	351	(39,493)	—
Total sales	1,251,770	104,834	237,717	138,323	72,463	(39,493)	1,765,616
Operating expenses	1,228,211	102,863	231,704	137,396	64,754	(41,221)	1,723,709
Operating income	\$ 23,558	\$ 1,970	\$ 6,012	\$ 927	\$ 7,709	\$ 1,728	\$ 41,907
Assets	\$1,175,252	\$ 71,154	\$103,435	\$ 77,826	\$50,563	\$(54,954)	\$1,423,278

### (3) Overseas sales

Overseas sales, which consisted of export sales by the Company and its domestic consolidated subsidiaries and overseas sales of overseas consolidated subsidiaries, for the years ended March 31, 2006 and 2005 are summarized as follows:

Millions of yen

	2006				
	North America	Southeast Asia	East Asia	Other	Consolidated
Overseas sales	¥11,886	¥32,452	¥25,416	¥15,915	¥ 85,670
Total sales					¥206,577
Ratio of overseas sales to total sales (%)	5.8	15.7	12.3	7.7	41.5

Millions of yen

	2005				
	North America	Southeast Asia	East Asia	Other	Consolidated
Overseas sales	¥11,072	¥24,375	¥20,756	¥10,190	¥ 66,394
Total sales					¥196,139
Ratio of overseas sales to total sales (%)	5.7	12.4	10.6	5.2	33.9

Thousands of U.S. dollars

	2006				
	North America	Southeast Asia	East Asia	Other	Consolidated
Overseas sales	\$101,594	\$277,368	\$217,235	\$ 136,031	\$ 732,229
Total sales					\$1,765,616

## 17. Related party transactions

There were no material related party transactions during the year ended March 31, 2006. Material transactions of the Company with related companies and individuals, excluding transactions with

consolidated subsidiaries which are eliminated in the consolidated financial statements and other than those already disclosed in these financial statements, were as follows for the year ended March 31, 2005:

### Prior fiscal year (April 1, 2004 – March 31, 2005)

### Directors and major individual shareholders

Relationship	Name of related company	Address	Paid-in Capital		Principal business	Voting rights (Owned) (%)	Relationship		Description of transaction	Transaction amount		Account balance	
			Millions of yen				Joint directorship, etc.	Business relationship		Millions of yen	Account	Millions of yen	
Company with majority voting rights owned by director or his immediate relatives	Kenzaisha Ltd.	Ashiya-shi, Hyogo	¥79		Non-life insurance agent	—	—	Insurance-related transactions	Payment of insurance expense	¥ 3	—	¥ —	
	Ruft Ltd.	Setagaya-ku, Tokyo	25		Design of air conditioning facilities	—	—	Outsourcing of design of air conditioning facilities	Payment of outsourcing fee	50	Accounts payable	4	
	Daini-Kenzaisha Ltd.	Setagaya-ku, Tokyo	62		Non-life insurance agent	—	—	Insurance-related transactions	Payment of insurance expense	11	—	—	

- Notes: 1. The above amounts, with the exception of account balances, do not include consumption taxes.  
2. The terms of insurance expense with related parties are the same as those with non-related parties.  
3. The terms of outsourcing fees with related parties are the same as those with non-related parties.  
4. Kenzaisha Ltd. is wholly owned by Director Hajime Matsuda and his immediate family. Hajime Matsuda retired as director at the expiration of his term at the close of the general meeting of shareholders on June 29, 2005.  
5. Ruft Ltd. is wholly owned by Director Eitaro Uenishi and his immediate family.  
6. Daini-Kenzaisha Ltd. is wholly owned by Ruft Ltd.

## 18. Subsequent event

- (1) The following appropriations of retained earnings were approved at the shareholders' meeting held on June 29, 2006:  
(2) The government and other public offices suspended the Company from bidding in public works for a period of three to six months during 2006. In addition, the Ministry of Land Infrastructure and Transport suspended the Company from performing duct constructions for public agencies and private companies that receive subsidies from public agencies from May 16 to July 14, 2006.

Millions of yen      Thousands of U.S. dollars

Appropriations of retained earnings:		
Cash dividends paid	¥838	\$7,169
Bonuses to directors	50	427

# REPORT OF INDEPENDENT AUDITORS

To the Board of Directors and Shareholders of Taikisha Ltd.:

We have audited the accompanying consolidated balance sheets of Taikisha Ltd. and its consolidated subsidiaries as of March 31, 2006 and 2005, and the related consolidated statements of income, shareholders' 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 consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Taikisha Ltd. and its consolidated subsidiaries as of March 31, 2006 and 2005, and the consolidated results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in Japan.

As described in Note 2 (19), effective for the year ended March 31, 2006, the Company changed its accounting policy for labor costs in design and construction management.

As described in Note 2 (18), effective for the year ended March 31, 2005, the Company and its domestic subsidiaries have adopted the new Japanese accounting standard for impairment of fixed assets.

The amounts expressed in U.S. dollars, which are provided solely for the convenience of the reader, have been translated on the basis set forth in Note 1 to the accompanying consolidated financial statements.



Tokyo, Japan  
June 29, 2006

ChuoAoyama PricewaterhouseCoopers

# CORPORATE INFORMATION

## CORPORATE DATA

**Corporate Name:**  
Taikisha Ltd.

**Head Office:**  
Shinjuku-Sumitomo Building  
2-6-1, Nishi-Shinjuku, Shinjuku-ku  
Tokyo 163-0212, Japan  
Phone: (03) 3344-1851  
Fax: (03) 3342-5590

**Established:**  
April 10, 1913

**Revenues:**  
¥142,694 million (year ended March 2006)

**Number of Employees:**  
1,392 (as of March 2006)

### Board of Directors:

**President**  
Hiroshi Yamamoto\*

**Vice President**  
Yoshiro Nakaya\*

**Senior Managing Directors**  
Toshihiko Osuka  
Masaharu Nishimura

**Managing Directors**  
Suguru Kimura  
Takashi Sakurai  
Satoru Kamiyama  
Tetsuo Nishiyama

**Directors**  
Hiroshi Matsuura  
Sadamasu Kono  
Minoru Morita  
Masakazu Kashima  
Makoto Muneoka  
Toshio Higuchi  
Eitaro Uenishi  
Koji Kimura  
Kiyoshi Hashimoto  
Yoshitomo Akasaki  
Hiroshi Inoguchi  
Masayuki Kitamoto  
Takashi Moriya  
Koji Kato  
Etsuo Kawahara  
Yusuke Oshida  
Mitsuru Sano

**Auditors**  
Ieaki Sato  
Kazunari Motomatsu  
Mitsuo Kobayashi  
Michinobu Yamachika  
Takeshi Asahara

\*Representative Director

(As of June 2006)

## HISTORY

- 1913** Kenzaisha (former name of Taikisha Ltd.) founded
- 1971** N.J. Axivane Co., Ltd. established
- Thai Kenzaisha Co., Ltd. established in Bangkok
- 1973** Company name changed to Taikisha Ltd.
- 1976** San Esu Industry Co., Ltd. established
- 1980** Shares listed on the First Section of the Tokyo Stock Exchange
- 1981** TKS Industrial Company established in U.S.A.
- 1983** Thai Kenzai Trading Co., Ltd. established in Bangkok
- 1985** Branch office opens in Singapore
- Taikisha Canada Inc. established in Toronto
- 1986** Nippon Noise Control Ltd. established
- 1987** Taikisha España S.A. begins operations in Madrid
- 1989** Taikisha (Taiwan) Ltd. established in Taipei
- Custom-Ace Ltd. established
- Taikisha Engineering (M) Sdn. Bhd. established in Kuala Lumpur, Malaysia
- Branch office opens in Melbourne, Australia
- 1990** P.T. Taikisha Indonesia Engineering established in Jakarta
- Taikisha de Mexico, S.A. de C.V. established in Mexico City
- 1994** Wuzhou Taikisha Engineering Co., Ltd. established in Beijing, China
- 1995** Taikisha Engineering India Ltd. established in New Delhi
- Taikisha Philippines Inc. established in Manila
- Taikisha Argentina S.A. established in Buenos Aires
- Representative office opens in Ho Chi Minh City, Vietnam
- 1996** Taikisha do Brasil Ltda. established in São Paulo, Brazil
- Taikisha Korea Ltd. established in Seoul, Korea (formerly Donki TEC Ltd. established in 1992)
- 1997** Representative office opens in Hong Kong
- Taikisha Europe Ltd. established in Birmingham, U.K. (formerly Taikisha UK Ltd. established in 1989)
- 1998** Taikisha Vietnam Engineering Inc. established in Hanoi
- Branch office opens in Yangon, Myanmar
- 1999** Branch office opens in Valenciennes, France
- 2000** Tokyo Taikisha Service Ltd. established (formerly Atmos Service Ltd. established in 1987)
- Taikisha Hong Kong Limited established
- 2001** Thai Kenzaisha Co. Ltd. renamed Taikisha (Thailand) Co., Ltd.
- Thai Kenzai Trading Co., Ltd. renamed Taikisha Trading (Thailand) Co., Ltd.
- 2003** Company reorganized into three division structure
- 2004** Singapore branch office closed. Subsidiary Taikisha (Singapore) Pte. Ltd. established
- R&D facilities integrated as Research and Development Center in Kanagawa prefecture
- P.T. Taikisha Manufacturing Indonesia established
- Taikisha Argentina S.A. liquidated

## ISO CERTIFICATION OBTAINED

- ISO 9001** Environmental Facilities Division, Industrial Facilities Division and Metal Finishing Division  
TKS Industrial Company  
Wuzhou Taikisha Engineering Co., Ltd.  
Taikisha Philippines Inc.  
Taikisha (Thailand) Co., Ltd.  
Taikisha Engineering (M) Sdn. Bhd.  
Taikisha (Singapore) Pte. Ltd.  
Taikisha Europe Ltd.
- ISO 14001** Environmental Facilities Division, Industrial Facilities Division and Metal Finishing Division  
TKS Industrial Company, Taikisha Europe Ltd.

# CORPORATE DIRECTORY



## TAIKISHA LTD.

### ENVIRONMENTAL FACILITIES DIVISION

#### Headquarters

Shinjuku-Sumitomo Building  
2-6-1, Nishi-Shinjuku, Shinjuku-ku  
Tokyo 163-0212, Japan  
Phone: (03) 3343-1404  
Fax: (03) 3344-0572

### INDUSTRIAL FACILITIES DIVISION

#### Headquarters

Shinjuku-Sumitomo Building  
2-6-1, Nishi-Shinjuku, Shinjuku-ku  
Tokyo 163-0212, Japan  
Phone: (03) 3343-1406  
Fax: (03) 3343-1408

### METAL FINISHING DIVISION

#### Headquarters

Gate City Osaki, 1-11-2  
Osaki, Shinagawa-ku  
Tokyo 141-0032, Japan  
Phone: (03) 3493-3001  
Fax: (03) 3493-3005

## DOMESTIC SUBSIDIARIES

**SAN ESU INDUSTRY CO., LTD.**  
**N.J. AXIVANE CO., LTD.**  
**NIPPON NOISE CONTROL LTD.**  
**TOKYO TAIKISHA SERVICE LTD.**  
**CUSTOM-ACE LTD.**

## OVERSEAS SUBSIDIARIES

### TKS INDUSTRIAL COMPANY

850 Stephenson Hwy, Suite #710,  
Troy, Michigan 48083, U.S.A.  
Phone: (248) 577-1100  
Fax: (248) 577-1122

### TAIKISHA CANADA INC.

850 Stephenson Hwy, Suite #710,  
Troy, Michigan 48083, U.S.A.  
Phone: (248) 577-1100  
Fax: (248) 577-1122

### TAIKISHA DE MEXICO, S.A. DE C.V.

Homero No. 407, Piso 7,  
Colonia Chapultepec Morales  
11570 Mexico D.F., Mexico  
Phone: (55) 5203-2130  
Fax: (55) 5250-6178

### TAIKISHA DO BRASIL LTDA.

Rua Apeninos, 930-Conj. 54,  
CEP 04104-020-S.P. Brazil  
Phone: (011) 5572-5414  
Fax: (011) 5575-6125

### WUZHOU TAIKISHA ENGINEERING CO., LTD.

4th Floor, Beijing Fortune Bldg.,  
#5 Dong San Huan Bei Lu  
Chaoyang District  
Beijing 100004, China  
Phone: (010) 6590-8251  
Fax: (010) 6590-8257

### TAIKISHA HONG KONG LIMITED

Unit 12B, 11/F, Wah Yiu Industrial  
Center,  
30-32 Au Pui Won Street, Fo Tan,  
No. 14, Science Museum Road  
Shatin, N.T., Hong Kong  
Phone: 2312-6878  
Fax: 2312-6870

### TAIKISHA KOREA LTD.

#209, Daeha Bldg. 14-11,  
Yoido-Dong, Youngdeungpo-Gu,  
Seoul, Korea  
Phone: (02) 783-0270  
Fax: (02) 783-0274

### TAIKISHA (TAIWAN) LTD.

Sheng Yang Bldg., 4th Floor  
No. 337, Tung Hwa S. Rd., Sec. 1  
Taipei, Taiwan  
Phone: (02) 2706-4327  
Fax: (02) 2706-4328

### TAIKISHA (Thailand) CO., LTD. TAIKISHA TRADING (Thailand) CO., LTD.

6th Floor, Thaniya Bldg.  
62 Silom Road, Bangkok 10500,  
Thailand  
Phone: (02) 236-8055  
Fax: (02) 236-3502

### THAIKEN MAINTENANCE & SERVICE CO., LTD.

445 Moo 17, Thepharak Rd.,  
T. Bangsaothong Sub District  
Bangsaothong, Samutprakarn 10540,  
Thailand  
Phone: (02) 705-8744  
Fax: (02) 705-8748

### TOKEN INTERIOR & DESIGN CO., LTD.

5th Floor, Thaniya Bldg.  
62 Silom Road, Bangkok 10500,  
Thailand  
Phone: (02) 236-9103  
Fax: (02) 236-0119

### TKA CO., LTD.

445 Moo 17, Bangna-Trad Rd.  
Km. 23, Tambol Bangsaothong  
Kingamphur Bangsaothong,  
Samutprakarn 10540, Thailand  
Phone: (02) 705-8363  
Fax: (02) 705-8993

### TAIKISHA VIETNAM ENGINEERING INC.

Room No. 303, 3rd Floor, Thang  
Long Bldg. 105 Long Ha Street,  
Dong Da District, Hanoi, Vietnam  
Phone: (04) 562-2750  
Fax: (04) 562-2751

### TAIKISHA PHILIPPINES INC.

5th Floor, Golden Rock Building,  
No. 168 Salcedo St., Legaspi Village,  
Makati City, 1229, Philippines  
Phone: (02) 896-3716  
Fax: (02) 896-3622

### TAIKISHA ENGINEERING (M) SDN. BHD.

Suite 20.2, 20th Floor,  
Bangunan MAS, Jalan Sultan Ismail  
50250 Kuala Lumpur, Malaysia  
Phone: (03) 2161-5711  
Fax: (03) 2161-9644

### TAIKISHA (Singapore) PTE. LTD.

210, Middle Road  
#06-06/08 IOI Plaza,  
Singapore, 188994  
Phone: (65) 6223-9928  
Fax: (65) 6223-9328

### P.T. TAIKISHA INDONESIA ENGINEERING

New Summitmas Bldg., 6th Floor  
Jl. Jend. Sudirman Kav. 61-62  
Jakarta Selatan, Indonesia  
Phone: (021) 522-6420  
Fax: (021) 520-2516

### P.T. TAIKISHA MANUFACTURING INDONESIA

Jl. Permata V Lot EE-5, Kawasan  
Industri KIIC, Karawang, 41361,  
Indonesia  
Phone: (021) 522-6420  
Fax: (021) 520-2516

### TAIKISHA ENGINEERING INDIA LTD.

Plot No. 404, Udyog Vihar, Phase-IV,  
Gurgaon-122 001 Haryana, India  
Phone: (124) 234-8246  
Fax: (124) 234-8247

### TAIKISHA EUROPE LTD.

5th Floor, Delta View, 2309 Coventry  
Road, Sheldon, Birmingham B26  
3PG, United Kingdom  
Phone: (0121) 700-1140  
Fax: (0121) 742-4035

### TAIKISHA ESPAÑA S.A.

Balmes, 44-46  
3-2 Barcelona, Spain  
Phone: (93) 488-3213  
Fax: (93) 488-3501

### CONTACT POINT FOR INVESTORS:

#### TAIKISHA LTD.

Investor Relations Office  
Phone: (03) 3344-1851  
Fax: (03) 3342-5590  
E-mail: mailmast@taikisha.co.jp

