MARUWA

# From Change to Challenge

## Annual Report 2006

For the year ended 31 March 2006

MARUWA CO., LTD.

# Profile

Since 1973, MARUWA CO., LTD. has specialized in ceramic material technology. Based on this technological expertise and “quality first” policy, MARUWA has been meeting customers’ requirements for three decades by supplying electronic components and ceramics for electronic parts, as well as other innovative products.

Today, MARUWA is expediting the transformation of its core business, increasing competitiveness by prioritizing its key business, and concentrating its management resources on these fields. As part of the business strategy, MARUWA is committed to developing quality-valued products in the rapidly expanding information technology field, while promoting development, production and sales localization through its global operations. The establishment of international operations creates part of the driving force that will enable MARUWA to attain high profitability and growth, in turn, increasing the corporate value.

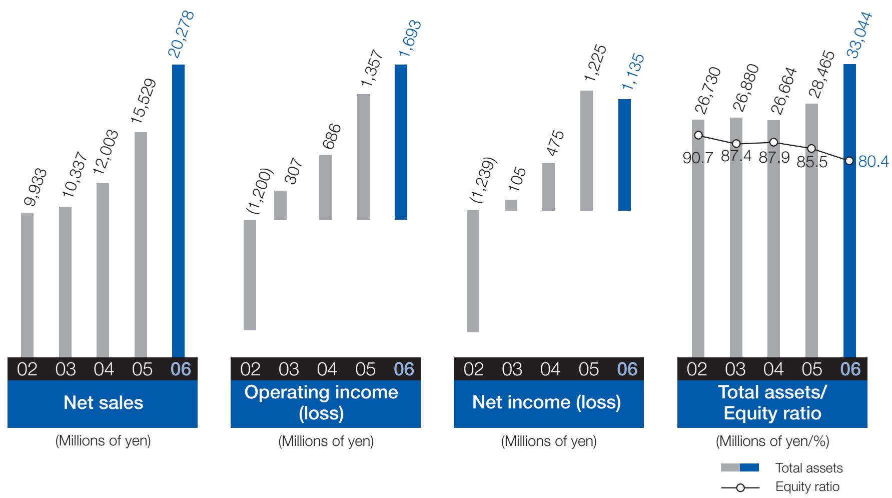
# Financial Highlights

MARUWA CO., LTD. and consolidated subsidiaries

For the years ended 31 March 2005 and 2006

| | Millions of yen<br>For the years ended 31 March | | Thousands of U.S. dollars<br>For the year ended 31 March |
|---|---|---|---|
| | 2005 | **2006** | **2006** |
| **For the year** | | | |
| Net sales | ¥15,529 | **¥20,278** | **$172,623** |
| Operating income | 1,357 | **1,693** | **14,412** |
| Income before income taxes | 1,180 | **1,669** | **14,208** |
| Net income | 1,225 | **1,135** | **9,662** |
| **At year-end** | | | |
| Total shareholders’ equity | 24,328 | **26,557** | **226,075** |
| Total assets | 28,465 | **33,044** | **281,297** |
| | Yen | | U.S. dollars |
| **Per share amounts** | | | |
| Net income | ¥112.40 | **¥103.82** | **$0.88** |
| Cash dividends | 15.00 | **21.00** | **0.18** |

Note: U.S. dollar amounts have been converted for convenience only at the rate of ¥117.47=US$1, the rate of exchange on 31 March 2006.




## Contents



Cautionary remarks regarding forward-looking statements

This Annual Report includes forward-looking statements that represent MARUWA’s assumptions and expectation in light of currently available information. These statements reflect industry trends, clients’ situations and other factors, and involve risks and uncertainties which may cause actual performance results to differ from those discussed in the forward-looking statements in accordance with changes in the domestic and overseas business environment.

# To Our Shareholders

First of all, I would like to thank you for your sincere support.

In the fiscal year ended 31 March 2006, our efforts to restructure corporate management, which were launched in the year ended March 2003, came to fruition and MARUWA posted increases in both consolidated net sales and operating income, marking the fourth consecutive year of such a trend. We could also solidify our management base.

MARUWA will embark on a new stage of “Challenge” to pursue future growth, departing from the stage of “Change” to restructure its management, aiming to maximize shareholder value.

We appreciate your continued support and understanding.

June 2006

Sei Kanbe

Sei Kanbe
President

Question

**How do you assess the business results for the fiscal year ended 31 March 2006?**

In the fiscal term under review, MARUWA saw both consolidated net sales and operating income increase for four years in a row, achieving the high earnings targets that we had set, and this achievement is something I think highly of. The increase in revenue is attributable mainly to a recovery in the electronic components market and strong demand for products in the EMC Components division. Income rose due to the following factors: reinforcement of the corporate structure through efforts to reduce inventories, shorten lead time, improve quality and yields, and cut costs; restoration of the operations and product lineups obtained through M&A that had been unprofitable; and contribution of newly developed products. Unfortunately, the Lighting Equipment business, which was added to consolidated accounting beginning in the term under review, incurred a loss of ¥27 million. However, this loss amount remains within the level we had originally projected.

Question

**How about the earnings outlook for the current fiscal year ending 31 March 2007?**

We have a bright outlook for the current term, forecasting that both revenue and profit will post double-digit percentage increases. This bullish projection is based on a likely rise in demand for components used in digital products such as automobiles that increasingly include electronic parts and thin-screen TVs, and our belief that the favorable results of “corporate restructuring,” which we have worked on since the year ended March 2003, will become increasingly clear.

Taking the ordeals it underwent during the IT bubble in 2000 and 2001 as well as its subsequent collapse as a lesson, MARUWA has endeavored to establish a structure that can respond to any change in the market. It advanced into a new field with new products and businesses, which it developed in-house or obtained through M&A activities. In the year ended March 2003, we worked hard to establish a defensive corporate structure that can respond to the rapidly changing market, through a sweeping improvement of corporate management. In the term ended March 2004, on the other hand, we strove to build an offensive structure through the enhancement of development and marketing systems. During the period through March 2005, we further strengthened the corporate structure with an emphasis on cash flows at individual businesses and production sections, reinforced operations acquired through the previous M&A activities, mass-produced newly developed products, and implemented measures for making such new products profitable. In the year under review, which was positioned as the year for the compilation of a series of “management restructuring,” MARUWA strove to strengthen the proprietary management structure with an eye toward operating globally, and achieved excellent results.

For the term ending 31 March 2007, MARUWA will strive to grow not only by creating new products and businesses, but also by acquiring businesses and products through M&A, which is expected to produce a synergy effect when combined with our own materials techniques, elemental technologies and products. Aiming to advance into the Asian market, we will also establish a subsidiary in India, to serve as a manufacturing base for electronic components. This facility, as one of the core bases overseas, is expected to help us to improve our productivity by enhancing its alliance with the Malaysian facility. Furthermore, we aim to enter the automotive components market, which is projected to expand from now on. As for this market, which we regard as a key strategic field, we have entered the final stage of developing relevant products through integration of proprietary ceramic materials and processing technologies, preparing for the establishment of a mass-production system for the products in and after the current fiscal year.

Question

**What are your capital investment plans for the year through March 2007?**

For the current fiscal year, MARUWA plans to invest ¥2.5 billion in plant and equipment, up about 44% from the year under review. As part of such investments, we will reinforce the facilities of Naoetsu Plant (Joetsu, Niigata Prefecture) and Toki Plant (Toki, Gifu Prefecture), in response to robust sales of mainstay circuit ceramics and EMC components, which are used in thin-screen TVs and automobile-mounted products. We have already invested about ¥700 million to enhance the facility at Naoetsu Plant, a major plant for manufacturing capacitors and EMC components, aiming for a 20% increase in production capacity there. Toki Plant is scheduled to be expanded in autumn 2006. We will spend ¥250 million on further increasing the production capacity of a plant in India, whose operations have been already launched. Mobile phone manufacturers overseas to which we deliver parts are increasing their sales in China, India and other emerging markets. Meanwhile, demand for components for use in automobiles and digital products such as thin-screen TVs is likely to continue growing. Against this backdrop, we are increasing our amount of investment to set the stage for establishing a system to expand output of such components.

Question

**Tell us about the progress of expanding production and sales bases overseas?**

In the U.S., MARUWA operates sales bases only in California, but now plans to establish such a base on the East Coast as well. We have increased sales staff in the U.K., our only base in Europe. Meanwhile, in Continental Europe, we will set up a business outlet to bolster sales operations for major local mobile phone manufacturers. On top of that, in China we have established a third sales base in Beijing.

As a result of expanding our sales bases overseas, we expect to increase production as a Group. In response, we established a new plant (MARUWA Electronic (India) Pvt., Ltd.*) in Chennai, India, as a new foreign manufacturing base, with investments totaling about ¥500 million. We expect the new company to contribute to improving the Group's productivity in the future as one of its core overseas bases for manufacturing EMC components and others.

*MARUWA Electronic (India) Pvt., Ltd.

**Establishment:** 2005
**Location:** Chennai, India
**Number of employees:** approximately 100 (including temporary employees)
**Sales:** ¥300 million (estimate for the fiscal year through March 2007)
**Products:** Electronic components, assembly parts, power inductors, etc.

Question

**What is the progress of the newly started Lighting Equipment business?**

In April 2005, we launched the Lighting Equipment business through new subsidiary MARUWA SHOMEI Co., Ltd. that is involved mainly in production and sales of lighting for roads and bridges in public works. Sales from this business tend to occur in March, and expenses substantially exceed sales until that month. In the fiscal year under review, MARUWA SHOMEI posted sales of ¥3,650 million and an operating loss of ¥27 million, a notable improvement from the previous year, since we pulled out all the stops to reduce costs, by such measures as reorganizing sales bases. From now on, MARUWA SHOMEI aims to enter a business in which the promising product of an LED is used to illuminate building exteriors, thereby establishing a balanced earnings structure that does not heavily rely on public works.

Question

**What is MARUWA's future course of action?**

Corporate management requires "destruction and creation." In order to flexibly respond to rapidly changing technological innovation and an equally changing market environment, a company needs to reform any organization and business structure that has become rigid, and efficiently allocate management resources such as personnel, equipment and capital for in-house use.

The mini-mini company system*, which we introduced in the year through March 2002, is designed to play just such a role. In establishing the system, we dissolved the vertically-divided, centrally-governed organization, which was directly controlled by the management's immediate staff, into 20 mini-mini companies – a "federal" system. The process from the time of introducing this system to the fiscal year under review may be called "activities to destruct the rigid existing order." However, through this continuous process of destructive changes, we could transform our organization into one equipped with a solid earnings structure and flexible competitiveness. Now that the stage of destruction, or "Change," has ended, we recognize the current fiscal year to be the stage of creation, or "Challenge."

In the next process of creating new corporate value toward growth, we will focus on fostering individual mini-mini companies in a big way. Specifically, we will consider increasing integration among mini-mini companies to accelerate corporate growth. We will integrate mini-mini companies taking into account their strength and the characteristics in the market so that the integrated entity can operate more efficiently and produce a synergy effect. By doing this, we will establish technologies that cannot be copied by other companies, enhance our capability of developing products, and ensure our position as the world's number one niche corporation in each product field. In addition, we will also continue to acquire external effective management resources through M&A, as one of our important options.

We will not only pursue better earnings, but also establish an attractive corporation that meets the expectations of our customers, shareholders, employees, business partners and the community, while further sharing values of MARUWA culture with them and fulfilling corporate social responsibility*. From now on, we will particularly focus on improving employee satisfaction, based on the belief that if employees feel satisfied with their everyday work, customers will also be satisfied and hence corporate value will be raised.

* Mini-mini company system

In order to expedite the decision-making process and nurture an open corporate culture, we have established the mini-mini company system while abolishing the division-section system. Each mini-mini company is run by a manager. MARUWA is composed of such mini-mini companies, or cells.

## *Efforts to fulfill corporate social responsibility

### Environmental protection activities

MARUWA is promoting a zero emissions campaign, aiming to reduce and recycle wastes centering on Toki Plant in Gifu Prefecture, which will achieve a recycling rate of 100% in the year through March 2007.

Toki Plant

### Supporting local environmental protection

MARUWA participated in the activity dubbed the Home of the Fireflies in Jokoji, and donated 1.6-hectares land to Seto municipal government in Aichi Prefecture. Currently, the area, including the Home of the Fireflies, is renamed MARUWA's Forest and being improved.

The Home of the Fireflies

### Supporting arts and culture activities

Through the Fundación Maruwa Fomento de Baile Espanõl (the Maruwa Foundation for Promotion of Spanish Dancing), MARUWA offers support in developing flamenco in Japan and training young dancers.

Public performance of flamenco at "Expo 2005 Aichi"

Question

**What are your measures for improving shareholder value?**

For the fiscal year under review, we will pay a year-end dividend of ¥12 per share, resulting in an annual payout of ¥21, of which ¥9 was paid as an interim dividend, up ¥6 from a year earlier. We plan to raise the full-year dividend payment for the year ending March 2007 by ¥3 per share year on year to ¥24, including an interim dividend of ¥12 and a year-end dividend of ¥12. We are striving to increase dividend payment from the level of a year earlier with the emphasis on returning profits to shareholders, while securing internal reserves for strategic investments that are needed to continuously expand our core businesses. We will make every effort to further enhance our investor relation activities so that shareholders can understand more appropriately the management status of MARUWA.

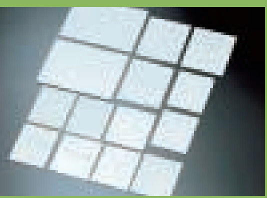
# Ceramic Components Business

## Circuit Ceramics

The Circuit Ceramics division produces ceramic substrates for chip resistors essential for a wide range of electronics and electric products, glazed substrates for thermal printer heads (TPHs) used in fax machines and bar code label printers, large-size ceramic substrates for hybrid ICs, and Aluminum Nitride substrates for power modules and automotive components.

### Fiscal 2006 results

Total sales of this division were ¥6,345 million in the fiscal term under review, up 2.1% from the previous year, reflecting recovered demand for mobile phones, personal computers and other products in the information and communications field. In the third quarter, demand for ceramic substrates for chip resistors decreased in Asia, but after the fourth quarter such demand picked up, particularly for multi-array type substrates.



### Looking ahead and key strategy

For the current year through March 2007, we will strive to further increase the market share for alumina substrates by establishing a system for increasing production, given an expected growth in demand in the Asian markets.

By leveraging ceramic material and multi-layer technologies, which we have built up for years, we are working on the development and commercialization of multi-layer ceramic substrates that are widely used in many industrial fields. Among targeted products include automotive module substrates, radio frequency components and radio frequency modules. In the fiscal term under review, we made efforts not only to develop technologies that heighten the density level and facilitate making products multi-functional, but also to expand the lineup of products to cover various sectors as well as establishing mass-production technology. As some of the products are already being mass-produced, we will proactively increase new customers. We expect sales from the Circuit Ceramics division to be ¥6,950 million for the current year, up 9.5% from the year under review.

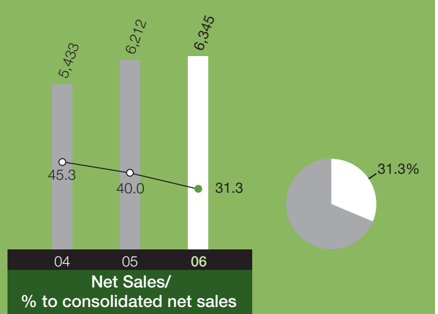
**Technology:**
Sheet casting technology

**Product line:**
- Ceramic substrates for chip resistors
- Ceramic rods for fixed resistors
- Glazed substrates for thermal printer heads (TPH)
- Large substrates for hybrid ICs
- Aluminum Nitride

**Applications:**

**– Ceramics for resistors**
Electronic devices, PCs, digital cameras, game console, mobile phones, components for automobiles.

**– Aluminum Nitride**
Hybrid/electric vehicles, DVDs, semiconductor equipment.



# Machinery Ceramics

The Machinery Ceramics division manufactures products that require high precision process technology, including quartz glass components mainly for semiconductor equipment, ceramics for supporting magnetic heads for personal computers, and ceramic valves for water faucets.

**Fiscal 2006 results**

The section of mainstay quartz glass products saw sales and profits increase in the previous year, thanks to strong demand from the semiconductor equipment field amid rising sales of digital home appliances and the reinforcement of the business foundation through reorganization of production sections. In the year under review, however, orders from major customers weakened after the fourth quarter.

To cope with this situation, we further strengthened our business foundation by improving production lines to ensure profits, and expediting the development of materials and products that respond to the growing trend toward large wafers. Despite these efforts, sales of this division were ¥4,444 million in the fiscal period under review, down 15.4% from the previous year.

**Looking ahead and key strategy**

The Machinery Ceramics division is still suffering the effects of weak demand, which began in the fiscal year under review, but domestic demand is recovering. In this situation, we aim to improve profitability. To this end, we will streamline operational efficiency of the administrative sector by taking advantage of the merger of MARUWA QUARTZ Co., Ltd. and MARUWA TFG Co., Ltd., which was conducted in the term under review, reorganize the production process, enhance the techniques for customized products, and advance into overseas markets.

We forecast that sales of this division will be ¥5,630 million for the current year, up 26.7% from the year under review.

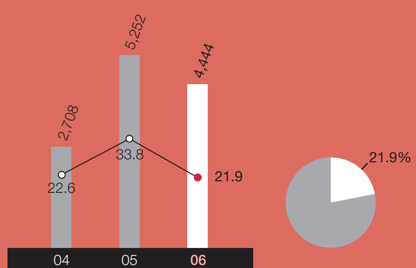
**Technology:**
Precision processing technology

**Product line:**
– Slider ceramics
– Ferrite
– Ceramic valves for water faucets
– Quartz glass products

**Applications:**

**– Slider ceramics/ferrite**
Floppy disk drives & hard disk drives for PCs

**– Ceramic valves for water faucets**
Dual (cold and hot) faucets, single faucets



Net Sales/
% to consolidated net sales

# Ceramic Components Business

## Radio Frequency Products

**Technology:**
Electronic device technology

**Product line:**
– BPF
– Dielectric ceramics
– Thin film products
– Multi-layer ceramic substrates

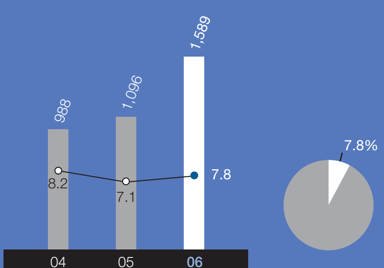
**Applications:**

**– Devices**
Mobile phones, wireless LAN, other wireless communications equipment.

**– Dielectric ceramics**
Base stations & terminals for mobile phones, GPS, Bluetooth technology.

**– Thin film products**
Mobile communication devices, CD/DVD-RW, Optical network.

**– Multi-layer ceramic substrates**
Mobile communication devices, automobiles.



Net Sales/
% to consolidated net sales

The Radio Frequency Products division manufactures device products, mainly bandpass filters (BPF) used in mobile phones, base stations and other items in the wireless communication field, dielectric filters used chiefly in the mobile communication field, and thin-film substrates for use in optical information and communication equipment.

### Fiscal 2006 results

Sales of this division were ¥1,589 million in the fiscal period under review, up 45.0% from the previous year, due to strong demand from the communications and digital home appliances sector. As for device products, sales increased substantially reflecting high demand in Asia for products used in mobile phones, commercial-use wireless equipment, and base stations. Sales of thin-film substrates expanded thanks to strong demand in the DVD-related field.

### Looking ahead and key strategy

With respect to the radio frequency production, sales have been rising since the latter half of the term under review. Capitalizing on this situation, we are working hard to establish a system for producing a wide range of products in small lots that respond to changes in market needs, as well as expand the sales market by developing new products.

The thin-film production carries out all processes of production, from raw material right through to the finished product, and it has also satisfactorily established mass production of Aluminum Nitride substrates with thin-film that have high thermal conductivity. In addition, the development and mass production of thin-film products that use dialectric materials has progressed favorably and we expect to sell products in the radio frequency market from now on.

The device production has also started product development of radio frequency modules that meet the needs of the market. We are also focusing on the development of products that use our proprietary ceramic technology, such as dielectric filters for base stations, and have started mass production in some of these products. From now on, we will explore markets for these products in the U.S. and the EU.

For the current fiscal year, we project sales from this segment to increase 23.3% year on year to ¥1,960 million.

# EMC Components

The EMC Components division produces EMI filters, chip varistors, chip beads and inductors, which are increasingly needed to control noise and electrical surges in electronic equipment, including: digital cameras; liquid crystal backlights; high-voltage, high capacitance multi-layer ceramic capacitors mainly for the power supply part of electronic devices; information/communication equipment such as mobile phones and personal computers; digital home appliances; amusement-related machines; and automotive electronic devices.

### Fiscal 2006 results

In the fiscal year under review, sales from this division jumped 43.1% from the preceding year to ¥4,250 million, due to a recovery in the electronic components market and strong demand for the lineup of new products.

Thanks to an expansion of the Asian market, we won substantial orders for EMI filters from manufacturers in the region of thin-screen TVs, DVD equipment and other digital home appliances. Sales of chip varistors rose due to an increase in demand from the automotive parts sector.

### Looking ahead and key strategy

With the digitization of TV broadcasting, the switch to thin-screen TVs is progressing, which accelerates the higher speed and multi-functioning of large-scale integrated (LSI) circuits. For this trend, demand is growing for more sophisticated and advanced EMC (electromagnetic compatibility measures to prevent electromagnetic interference). As for the EMC business, we are striving to meet such market needs through the expansion of our product lineups for various coils, capacitors and LC filters, advanced EMI filters and chip varistors that combine these elements, as well as enhancing our EMC technology. In doing so, we are using proprietary technologies for dielectric and magnetic ceramic materials and printing, multi-layering and baking techniques, which we have cultivated, while pursuing better noise/surge absorption, space-saving surface mounting, radio frequency compliance, competitive pricing and environmental considerations.

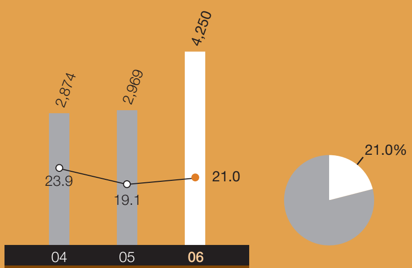
For the current year through March 2007, we forecast that earnings will increase due to an expansion in sales by manufacturers of digital home appliances, whose business is doing well at home and abroad. We will intensify marketing activities to win more orders for such components as ceramic capacitors, EMI filters and inductors, centering on the Asian market. Sales from this division are estimated to be ¥5,970 million for the current year, up 40.5% from a year earlier.

**Technology:**
Multi-layer technology

**Product line:**
– Multi-layer ceramic capacitors
– EMI filters
– Multi-layer ceramic varistors
– Power inductors

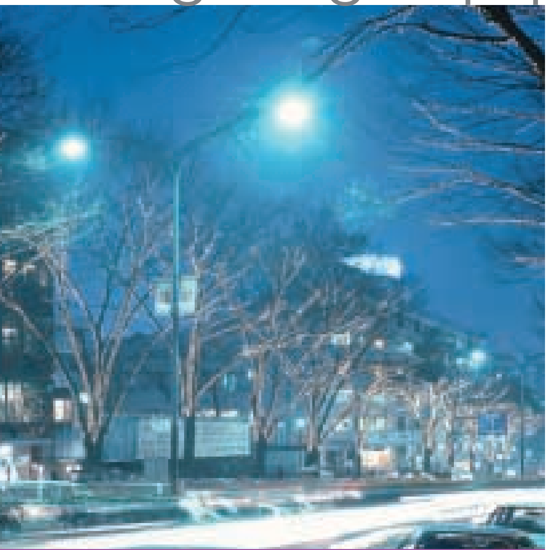
**Applications:**

**– EMC Components**
Digital cameras, PCs, mobile phones, automobiles




Net Sales/
% to consolidated net sales

# Lighting Equipment Business



## Lighting Equipment

This business involves the manufacture and sales of lighting equipment for use in roads, bridges and tunnels, which are constructed as public works projects. We will expand the business domain into a field that includes LED illumination of building exteriors.

**Main products:**
- Lighting fixtures for roads, bridges and tunnels
- Lighting apparatus for streets and squares, and hybrid solar lighting
- Floodlights
- Signboards

### Fiscal 2006 results

In the Lighting Equipment Business, which was launched in the fiscal year under review, MARUWA posted sales of ¥3,650 million in the year, and an operating loss of ¥27 million.

As the business handles lighting equipment for roads and bridges in the public works field, sales tend to occur at the end of the fiscal term. (The government also closes its accounts on 31 March of each year.) Throughout the year under review, we reviewed operational bases of this business and implemented measures to reduce cost and purchase expenses. As a result, we failed to become profitable, but were able to reduce losses from this business compared with the beginning of the year.

### Looking ahead and key strategy

MARUWA is promoting the research and development of streetlights that are eco-friendly and lighting fixtures for the bridge railing that use LEDs, the next-generation light source. It is unlikely that sales from this business will increase, given a reduction in the budget for public investment and intense price-cutting competition. Despite such severe circumstances, we project that sales will rise 10.1% year on year to ¥4,020 million for the current fiscal year, due to development and sales of outdoor lighting fixtures that use LEDs as their light source.

### Industry’s first LED-based footbridge lighting fixture developed and commercialized

**MARUWA SHOMEI’s brand “Luster μ”**

MARUWA SHOMEI Co., Ltd., the Group’s consolidated subsidiary engaged in the lighting equipment business, has succeeded in developing and commercializing a footbridge lighting fixture that uses LEDs, the first time such a product has been seen in the industry. By improving optical control and power circuits, MARUWA SHOMEI overcame the issues of brightness and light conversion efficiency and developed an LED module that is more efficient than ordinary 40W fluorescent tubes. LED lamps have longer lives, are smaller in size, and consume less power. As next-generation lighting that consumes less energy and is friendly to the environment, LED lighting may replace electric bulbs and fluorescent tubes. The newly developed lighting is expected to be a strategic product that will expand the sales of the Lighting Equipment business from the public sector into the private sector.

# Financial Section



# Five-Year Summary

MARUWA CO., LTD. and consolidated subsidiaries
For the years ended 31 March 2002, 2003, 2004, 2005 and 2006

| | Millions of yen | | | | | Thousands of U.S. dollars |
|---|---|---|---|---|---|---|
| | For the years ended 31 March | | | | | For the years ended 31 March |
| | 2002 | 2003 | 2004 | 2005 | **2006** | **2006** |
| **For the year** | | | | | | |
| Net sales | ¥9,933 | ¥10,337 | ¥12,003 | ¥15,529 | **¥20,278** | **$172,623** |
| Operating income (loss) | (1,200) | 307 | 686 | 1,357 | **1,693** | **14,412** |
| Income (loss) before income taxes | (1,288) | 233 | 711 | 1,180 | **1,669** | **14,208** |
| Net income (loss) | (1,239) | 105 | 475 | 1,225 | **1,135** | **9,662** |
| **At year-end** | | | | | | |
| Total shareholders' equity | 24,246 | 23,488 | 23,429 | 24,328 | **26,557** | **226,075** |
| Total assets | 26,730 | 26,880 | 26,664 | 28,465 | **33,044** | **281,297** |
| | Yen | | | | | U.S. dollars |
| **Per share** | | | | | | |
| Net income (loss) | (¥112.70) | ¥8.99 | ¥42.67 | ¥112.40 | **¥103.82** | **$0.88** |
| Cash dividends | 14.00 | 14.00 | 14.00 | 15.00 | **21.00** | **0.18** |

## Operating Results

### *The MARUWA Group*

The MARUWA Group consists of MARUWA Co., Ltd., 13 subsidiaries and 1 affiliated company. In the fiscal year under review, we added the lighting business to our business domain, because MARUWA SHOMEI Co., Ltd., which is engaged in this lighting business, became a consolidated subsidiary. Hence, the segment information is separated into two categories: the Ceramic Components business (11 companies including MARUWA), which handles the production and selling of ceramic products such as electronic components; and the Lighting Equipment business (1 company), which manufactures and sells lighting devices.

### *Earnings overview for the year ended 31st March 2006*

Our business environment in the year under review saw inventory adjustment ease in the IT-related field and a recovery in exports bound mainly for Asia, resulting in increased demand. A rise in external demand, combined with a rise in private consumption driven by strong corporate earnings reflecting the Japanese economy's self-sustaining recovery, produced a favorable economic environment.

Against this backdrop, the Group saw a general recovery in orders received, thanks to a pickup in the electronic components market, except for in the semiconductor manufacturing equipment-related business. The lighting equipment business, which was included in consolidated accounting from the beginning of the fiscal year under review, also contributed to the Group's revenue. As a result, consolidated net sales were ¥20,278 million, up 30.6% from the previous year.

Operating income jumped 64.6% to ¥2,234 million, excluding that from the lighting business. This increase was attributable to various measures implemented by the Group, including: reduction in inventories; shortening of lead time; improvement in quality and yields; reinforcement of corporate structure through cost-cutting efforts; restoration of the operations and product lineups obtained through M&A from which the Group had failed to turn a profit; and making newly developed products profitable.

With respect to the Lighting Equipment business, which was added to consolidated accounting from the period under review, the Group worked hard to integrate sales outlets and reduce costs. However, we ended up posting an operating loss of ¥27 million in this business.

Overall, consolidated operating income rose 24.8% year on year to ¥1,693 million. Meanwhile, net income dropped 7.3% to ¥1,135 million, due chiefly to the booking of ¥261 million, the amount of payments relating to the abolishment of the retirement allowance system for executives, as other expense.

### *Net sales*

In the fiscal year under review, the Group improved yields and reduced lead time under a marketing system in which sales, production and development were integrated on a global basis, while establishing a system to develop products that satisfy the needs of the market and are produced through a more flexible manufacturing structure. As a result of these efforts, consolidated net sales increased 30.6% from a year earlier to ¥20,278 million.

As for sales by product division, the Circuit Ceramics division posted ¥6,345 million, up 2.1% from the previous year, which accounts for 31.3% of the total sales. Sales from the Machinery Ceramics division decreased 15.4% to ¥4,444 million, representing 21.9% of the total sales. Sales from the Radio Frequency Products division rose 45.0% to ¥1,589 million, constituting 7.8% of the total sales. In the EMC Components division, sales jumped 43.1% to ¥4,250 million, making up 21.0% of the total sales. Sales from the Lighting Equipment division were ¥3,650 million, accounting for 18.0% of the total sales. The sharp increase in sales of the EMC Components division is attributable to increased demand for digital home appliances, such as thin-screen TVs and DVD equipment, and automotive components.

### *Profit and loss*

In the fiscal year under review, gross profit increased 33.2% from the preceding year to ¥5,784 million thanks to an expansion in sales, and the ratio of gross profit on sales rose 0.5 percentage points to 28.5%. The profit margin improved mainly because products that had required large development expenses became profitable in the period under review, and each production section proactively reduced stockpiles between lines.

Selling, general and administrative expenses increased 37.1% to ¥4,091 million, due to an increase in various costs associated with turning MARUWA SHOMEI into a consolidated subsidiary, centering on personnel expenses. The ratio of selling, general and administrative expenses to net sales rose 1.0 percentage point to 20.2%.

As a result, operating income increased 24.8% to ¥1,693 million. The operating income margin fell 0.4 percentage points to 8.3%, hurt by an operating loss of ¥27 million in the Lighting Equipment business. However, such margin of the Ceramic Components business improved 4.7 percentage points to 13.4%.

For other income (expenses), MARUWA booked a loss of ¥24 million. Despite an income of ¥640 million due mainly to amortization of consolidation adjustment account totaling ¥214 million for new subsidiaries including MARUWA SHOMEI that was made into a consolidated subsidiary, MARUWA booked as a loss the payment of ¥261 million made in association with the abolishment of the retirement allowance system for executives and ¥140 million incurred by the disposal of equipment.

Accordingly, income before income taxes was ¥1,669 million, and net income after corporate, inhabitant and enterprise taxes declined 7.3% to ¥1,135 million. Net income per share was ¥103.82.

## Financial Position

### *Cash flows*

Cash and cash equivalents (hereinafter collectively referred to as "cash") amounted to ¥7,899 million at the end of the fiscal year under review, up ¥964 million from a year earlier.

Net cash provided by operating activities fell ¥1,283 million from a year earlier to ¥2,036 million. This cash increase is attributable mainly to a decrease of ¥986 million in allowance for retirement benefits relating to a change in the corporate pension system and an increase of ¥23 million in inventories in reaction to a substantial reduction in this amount in the previous fiscal year. Cash flows were adjusted to an increase amount due to depreciation of ¥1,614 million.

Net cash used in investing activities was ¥1,234 million, down ¥828 million. As part of capital investment during the period, we purchased tangible fixed assets amounting to ¥1,452 million, and shares of MARUWA SHOMEI, which became a new consolidated subsidiary, for ¥9 million. In acquiring MARUWA SHOMEI, we also acquired cash assets, and the actual cash-in amount was ¥358 million. As a result, free cash flows amounted to ¥802 million, down from the ¥1,257 million registered in the previous year.

Net cash provided by financing activities totaled ¥51 million, up ¥634 million. The overall increase in cash is attributable chiefly to ¥349 million in proceeds from sales of treasury stocks, while repayment of long-term debt of ¥147 million and disbursement of cash dividends worth ¥180 million represented outflows.

### *Working capital*

At the end of the fiscal term under review, current assets increased ¥3,758 million from the previous year. By item, cash and deposits rose ¥964 million to ¥7,899 million. Some people may feel our position of cash and deposits is at a large amount, given the business scale. However, we believe that our current top priority is to swiftly respond to the needs of the market, and to achieve this, it is important to effectively utilize M&A strategies, while maintaining a high liquidity. Trade notes and accounts receivable increased ¥2,291 million due to the expansion of business, transformation of MARUWA SHOMEI into a consolidated subsidiary and an increase at MARUWA Electronics (Taiwan) Co., Ltd.

Current liabilities rose ¥2,570 million, primarily because trade notes and accounts payable increased ¥1,793 million due to the transformation of MARUWA SHOMEI into a consolidated subsidiary and an increase in purchases.

As a result, working capital stood at ¥13,607 million at the end of the fiscal term under review, up ¥1,188 million from the preceding year, and the current ratio is 373.2%.

### *Capital expenditure*

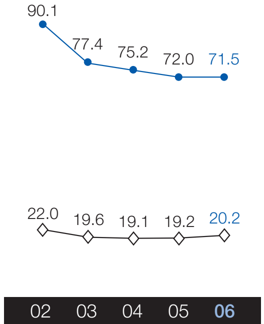
Capital expenditure totaled ¥1,737 million in the fiscal year under review, up from ¥1,253 million in the previous year. As for the Ceramic Components business, MARUWA spent: ¥619 million mainly replacing machines and facilities at the Circuit Ceramics division to manufacture new products; ¥507 million in the Machinery Ceramics division chiefly on improving and reorganizing the plants of consolidated subsidiary MARUWA QUARTZ; ¥142 million in the Radio Frequency Products division installing mass-producing facilities; ¥175 million in the EMC Components division on replacing facilities; and ¥273 million installing facilities for developing products. Meanwhile, MARUWA used ¥21 million for the Lighting Equipment business. These investments were all financed with our own funds. As a result, tangible fixed assets totaled ¥12,087 million, up ¥779 million, due chiefly to the addition of MARUWA SHOMEI as a consolidated subsidiary, despite depreciation costs of ¥1,614 million.

### *Interest-bearing debt*

At the end of the fiscal period under review, interest-bearing debt totaled ¥335 million, down ¥147 million from a year earlier. Of this total, ¥147 million was due within one year, the same amount as the preceding year, and long-term debt amounted to ¥188 million, down ¥147 million. As a result, the debt equity ratio improved to 1.3% compared with 2.0% for the previous year, indicating our financial structure has been further strengthened.

### *Shareholders' equity*

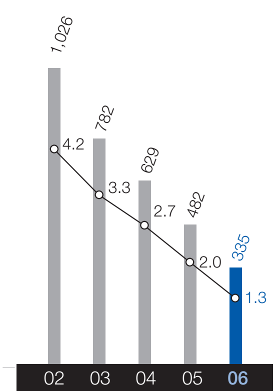
Shareholders' equity was ¥26,557 million at the end of the fiscal year under review, up ¥2,229 million from a year earlier. A factor in this rise was an increase of retained earnings of ¥945 million due to net income of ¥1,135 million, the booking of minus ¥206 million (¥1,077 million in the preceding year) in foreign currency translation adjustment and decreasing ¥327 million in treasury stock due to the exercise of stock options. As a result, the equity ratio stood at 80.4%.




Cost of sales to net sales/
SG&A expenses to net sales

(%)

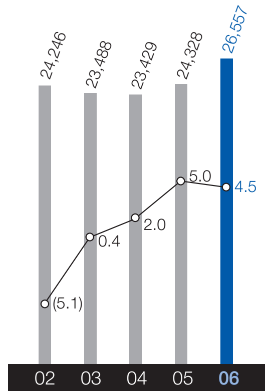
Cost of sales to net sales
SG&A expenses to net sales




Interest-bearing debts/
Debt equity ratio

(Millions of yen/ %)

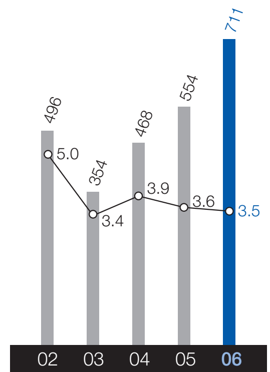
Interest-bearing debts
Debt-equity ratio




Shareholders' equity/
ROE

(Millions of yen/ %)

Shareholders' equity
ROE




R&D costs/
R&D costs to net sales

(Millions of yen/ %)

R&D costs
R&D costs to net sales

# Consolidated Balance Sheets

MARUWA CO., LTD. and consolidated subsidiaries

As of 31 March 2005 and 2006

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | 31 March | | 31 March |
| | 2005 | **2006** | **2006** |
| **ASSETS** | | | |
| **Current assets:** | | | |
| Cash and deposits | ¥6,935 | **¥7,899** | **$67,243** |
| Trade notes and accounts receivable | 4,712 | **7,003** | **59,615** |
| Inventories (Note 6) | 2,554 | **2,869** | **24,423** |
| Deferred tax assets (Note 11) | 388 | **226** | **1,924** |
| Other current assets | 245 | **608** | **5,176** |
| Allowance for doubtful accounts | (4) | **(17)** | **(145)** |
| Total current assets | 14,830 | **18,588** | **158,236** |
| **Property, plant and equipment** (Note 8)**:** | | | |
| Land | 2,957 | **3,412** | **29,046** |
| Buildings and structures | 6,160 | **6,520** | **55,504** |
| Machinery and equipment | 9,713 | **10,266** | **87,393** |
| Other | 2,787 | **3,086** | **26,269** |
| Construction in progress | 242 | **152** | **1,294** |
| Total property, plant and equipment | 21,859 | **23,436** | **199,506** |
| Less – Accumulated depreciation | (10,551) | **(11,349)** | **(96,612)** |
| Net property, plant and equipment | 11,308 | **12,087** | **102,894** |
| **Investments and other assets:** | | | |
| Investment securities (Notes 5 and 9) | 701 | **784** | **6,674** |
| Deferred tax assets (Note 11) | 184 | **152** | **1,294** |
| Property and equipment for investments | 977 | **960** | **8,172** |
| Other | 465 | **473** | **4,027** |
| Total investments and other assets | 2,327 | **2,369** | **20,167** |
| Total assets | ¥28,465 | **¥33,044** | **$281,297** |

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

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | 31 March | | 31 March |
| | 2005 | **2006** | **2006** |
| **LIABILITIES AND SHAREHOLDERS' EQUITY** | | | |
| **Current liabilities:** | | | |
| Trade notes and accounts payable | ¥797 | **¥2,590** | **$22,048** |
| Current portion of long-term debt (Notes 7 and 8) | 147 | **147** | **1,252** |
| Accrued income taxes | 65 | **210** | **1,788** |
| Accrued bonus | 195 | **334** | **2,843** |
| Stock purchase warrants | 11 | **—** | **—** |
| Notes payable for property acquisitions | 339 | **532** | **4,529** |
| Other current liabilities | 857 | **1,168** | **9,942** |
| Total current liabilities | 2,411 | **4,981** | **42,402** |
| **Long-term liabilities:** | | | |
| Long-term debt (Notes 7 and 8) | 335 | **188** | **1,600** |
| Deferred tax liabilities (Note 11) | 7 | **62** | **528** |
| Accrued retirement benefits (Note 19) | 858 | **300** | **2,554** |
| Consolidating adjustment account (negative goodwill) | 448 | **579** | **4,929** |
| Other | 78 | **377** | **3,209** |
| Total long-term liabilities | 1,726 | **1,506** | **12,820** |
| **Shareholders' equity** (Note 12)**:** | | | |
| Common stock, no par value; | | | |
| Authorized: 26,000,000 shares; | | | |
| Issued: 11,050,000 shares in 2005 and 11,072,000 shares in 2006 | 6,683 | **6,710** | **57,121** |
| Capital surplus | 9,710 | **9,747** | **82,974** |
| Retained earnings | 9,577 | **10,522** | **89,572** |
| Net unrealized gains on available-for-sale securities | 16 | **38** | **323** |
| Foreign currency translation adjustment | (1,077) | **(206)** | **(1,753)** |
| Treasury stock, at cost - 272,740 shares in 2005 and 115,640 shares in 2006 | (581) | **(254)** | **(2,162)** |
| Total shareholders' equity | 24,328 | **26,557** | **226,075** |
| Commitments and contingent liabilities (Notes 14 and 15) | | | |
| Total liabilities and shareholders' equity | ¥28,465 | **¥33,044** | **$281,297** |

# Consolidated Statements of Income

MARUWA CO., LTD. and consolidated subsidiaries

For the years ended 31 March 2004, 2005 and 2006

| | Millions of yen | | | Thousands of U.S. dollars |
|---|---|---|---|---|
| | For the years ended 31 March | | | For the year ended 31 March |
| | 2004 | 2005 | **2006** | **2006** |
| **Net sales** (Note 20) | ¥12,003 | ¥15,529 | **¥20,278** | **$172,623** |
| **Cost of sales** (Notes 17 and 20) | 9,022 | 11,187 | **14,494** | **123,385** |
| Gross profit | 2,981 | 4,342 | **5,784** | **49,238** |
| **Selling, general and administrative expenses** (Notes 16, 17 and 20) | 2,295 | 2,985 | **4,091** | **34,826** |
| Operating income | 686 | 1,357 | **1,693** | **14,412** |
| **Other income (expenses):** | | | | |
| Interest and dividend income | 13 | 22 | **39** | **332** |
| Interest expenses | (13) | (10) | **(8)** | **(68)** |
| Foreign exchange gain (loss), net | 31 | 19 | **(158)** | **(1,345)** |
| Other, net | (6) | (208) | **103** | **877** |
| Other income (expenses), net | 25 | (177) | **(24)** | **(204)** |
| Income before income taxes | 711 | 1,180 | **1,669** | **14,208** |
| **Income tax expenses (benefits)** (Note 11): | | | | |
| Current | 112 | 170 | **299** | **2,545** |
| Deferred | 124 | (215) | **235** | **2,001** |
| | 236 | (45) | **534** | **4,546** |
| Net income | ¥475 | ¥1,225 | **¥1,135** | **$9,662** |

| | Yen | | | U.S. dollars |
|---|---|---|---|---|
| **Per share:** | | | | |
| **Net income** (Notes 12 and 13): | | | | |
| Basic | ¥42.67 | ¥112.40 | **¥103.82** | **$0.88** |
| Diluted | ¥42.67 | ¥112.18 | **¥103.21** | **$0.88** |
| **Cash dividends** | ¥14.00 | ¥15.00 | **¥21.00** | **$0.18** |

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

# Consolidated Statements of Shareholders' Equity

MARUWA CO., LTD. and consolidated subsidiaries

For the years ended 31 March 2004, 2005 and 2006

| | | Millions of yen | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Number of shares of common stock (Thousands) | Common stock | Capital surplus | Retained earnings | Net unrealized gains (losses) on available-for-sale securities | Foreign currency translation adjustment | Treasury stock | Total shareholders' equity |
| **Balance at 31 March 2003** | 11,050 | ¥6,683 | ¥9,710 | ¥7,748 | (¥7) | (¥444) | (¥202) | ¥23,488 |
| Cumulative effect on change of deferred income tax accounting adopted by overseas consolidated subsidiary | | — | — | 453 | — | — | — | 453 |
| Net income | | — | — | 475 | — | — | — | 475 |
| Cash dividends | | — | — | (154) | — | — | — | (154) |
| Directors' bonus | | — | — | (6) | — | — | — | (6) |
| Change in net unrealized gains (losses) on available-for-sale securities | | — | — | — | 45 | — | — | 45 |
| Translation adjustment | | — | — | — | — | (771) | — | (771) |
| Changes in treasury stock | | — | — | — | — | — | (101) | (101) |
| **Balance at 31 March 2004** | 11,050 | 6,683 | 9,710 | 8,516 | 38 | (1,215) | (303) | 23,429 |
| Net income | | — | — | 1,225 | — | — | — | 1,225 |
| Cash dividends | | — | — | (157) | — | — | — | (157) |
| Directors' bonus | | — | — | (7) | — | — | — | (7) |
| Loss of liquidation of treasury stock | | — | — | (0) | — | — | — | (0) |
| Change in net unrealized gains on available-for-sale securities | | — | — | — | (22) | — | — | (22) |
| Translation adjustment | | — | — | — | — | 138 | — | 138 |
| Changes in treasury stock | | — | — | — | — | — | (278) | (278) |
| **Balance at 31 March 2005** | 11,050 | 6,683 | 9,710 | 9,577 | 16 | (1,077) | (581) | 24,328 |
| Net income | | — | — | 1,135 | — | — | — | 1,135 |
| Cash dividends | | — | — | (180) | — | — | — | (180) |
| Directors' bonus | | — | — | (10) | — | — | — | (10) |
| Loss of liquidation of treasury stock | | — | — | (0) | — | — | — | (0) |
| Change in net unrealized gains on available-for-sale securities | | — | — | — | 22 | — | — | 22 |
| Translation adjustment | | — | — | — | — | 871 | — | 871 |
| Issuance of common stock due to exercise of stock purchase warrants | 22 | 27 | 37 | — | — | — | — | 64 |
| Changes in treasury stock | | — | — | — | — | — | 327 | 327 |
| **Balance at 31 March 2006** | **11,072** | **¥6,710** | **¥9,747** | **¥10,522** | **¥38** | **(¥206)** | **(¥254)** | **¥26,557** |

| | Thousands of U.S. dollars | | | | | | |
|---|---|---|---|---|---|---|---|
| | Common stock | Capital surplus | Retained earnings | Net unrealized gains (losses) on available-for-sale securities | Foreign currency translation adjustment | Treasury stock | Total shareholders' equity |
| **Balance at 31 March 2005** | $56,891 | $82,659 | $81,527 | $136 | ($9,167) | ($4,946) | $207,100 |
| Net income | — | — | 9,662 | — | — | — | 9,662 |
| Cash dividends | — | — | (1,532) | — | — | — | (1,532) |
| Directors' bonus | — | — | (85) | — | — | — | (85) |
| Loss of liquidation of treasury stock | — | — | (0) | — | — | — | (0) |
| Change in net unrealized gains on available-for-sale securities | — | — | — | 187 | — | — | 187 |
| Translation adjustment | — | — | — | — | 7,414 | — | 7,414 |
| Issuance of common stock due to exercise of stock purchase warrants | 230 | 315 | — | — | — | — | 545 |
| Changes in treasury stock | — | — | — | — | — | 2,784 | 2,784 |
| **Balance at 31 March 2006** | **$57,121** | **$82,974** | **$89,572** | **$323** | **($1,753)** | **($2,162)** | **$226,075** |

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

# Consolidated Statements of Cash Flows

MARUWA CO., LTD. and consolidated subsidiaries

For the years ended 31 March 2004, 2005 and 2006

| | Millions of yen | | | Thousands of U.S. dollars |
|---|---|---|---|---|
| | For the years ended 31 March | | | For the year ended 31 March |
| | 2004 | 2005 | **2006** | **2006** |
| **Cash flows from operating activities:** | | | | |
| Income before income taxes | ¥711 | ¥1,180 | **¥1,669** | **$14,208** |
| Adjustments for: | | | | |
| Depreciation | 1,466 | 1,481 | **1,614** | **13,740** |
| Amortization of consolidating adjustment account (negative goodwill) | (119) | (156) | **(214)** | **(1,822)** |
| (Decrease) increase in allowance for doubtful accounts | (20) | 1 | **7** | **60** |
| Increase in accrued retirement benefits | 36 | 108 | **(878)** | **(7,474)** |
| Loss on disposal of property, plant and equipment | 51 | 122 | **140** | **1,192** |
| Interest and dividend income | (13) | (22) | **(39)** | **(332)** |
| Foreign exchange loss (gain) | 7 | (29) | **159** | **1,354** |
| Gain on sales of investment securities | — | — | **(146)** | **(1,243)** |
| Write-down of investment securities | — | 3 | **—** | **—** |
| Increase in trade notes and accounts receivable | (605) | (331) | **(303)** | **(2,579)** |
| Decrease (increase) in inventories | 477 | 1,089 | **(23)** | **(196)** |
| Increase (decrease) in trade notes and trade accounts payable | 207 | (86) | **(250)** | **(2,128)** |
| Other | (6) | 102 | **389** | **3,310** |
| Sub-total | 2,192 | 3,462 | **2,125** | **18,090** |
| Interest and dividend income received | 12 | 22 | **38** | **323** |
| Interest expenses paid | (2) | (10) | **(8)** | **(68)** |
| Income taxes paid | (100) | (155) | **(119)** | **(1,013)** |
| Net cash provided by operating activities | 2,102 | 3,319 | **2,036** | **17,332** |
| **Cash flows from investing activities:** | | | | |
| Payments for purchase of property, plant and equipment | (733) | (1,236) | **(1,452)** | **(12,361)** |
| Proceeds from sales of property, plant and equipment | 38 | 18 | **78** | **664** |
| Payments for disposal of property, plant and equipment | — | — | **(47)** | **(400)** |
| Payments for purchase of investment securities | (41) | (59) | **(309)** | **(2,630)** |
| Proceeds from sales of investment securities | 133 | 1 | **163** | **1,388** |
| Purchase of new subsidiary's shares | — | — | **(23)** | **(196)** |
| Acquisition of new consolidated subsidiaries (Note 4) | — | (774) | **358** | **3,048** |
| Collection of loans receivable | 1 | — | **—** | **—** |
| Increase in intangible fixed assets | (109) | (6) | **(29)** | **(247)** |
| Other | 3 | (6) | **27** | **229** |
| Net cash used in investing activities | (708) | (2,062) | **(1,234)** | **(10,505)** |
| **Cash flows from financing activities:** | | | | |
| Payments of long-term debt | (152) | (147) | **(147)** | **(1,251)** |
| Cash dividends paid | (154) | (157) | **(180)** | **(1,533)** |
| Proceeds from issuance of common stock | — | — | **52** | **443** |
| Payments for purchase of treasury stock | (101) | (280) | **(23)** | **(196)** |
| Proceeds from sales of treasury stock | — | 1 | **349** | **2,971** |
| Net cash (used in) provided by financing activities | (407) | (583) | **51** | **434** |
| **Effect of exchange rate changes on cash and cash equivalents** | (76) | 59 | **111** | **946** |
| **Net increase in cash and cash equivalents** | 911 | 733 | **964** | **8,207** |
| **Cash and cash equivalents at beginning of year** | 5,291 | 6,202 | **6,935** | **59,036** |
| **Cash and cash equivalents at end of year** (Note 4) | ¥6,202 | ¥6,935 | **¥7,899** | **$67,243** |

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

## 1. Basis of presentation of consolidated financial statements:

The accompanying consolidated financial statements have been prepared based on the accounts maintained by MARUWA CO., LTD. (the Company) and its consolidated subsidiaries (collectively, "MARUWA") in accordance with the provisions set forth in the Commercial Code of Japan and the Securities and Exchange Law of Japan, and in conformity with accounting principles generally accepted in Japan, which are different in certain respects from the application and disclosure requirements of International Accounting Standards.

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

MARUWA maintains its accounting records in Japanese yen. The dollar amounts included in the accompanying consolidated financial statements and notes thereto present the arithmetic results of translating yen into U.S. dollars on a basis of ¥117.47 to $1, the rate of exchange prevailing on 31 March 2006. The inclusion of such amounts is not intended to imply that Japanese yen have been or could be readily converted, realized or settled in U.S. dollars at this or any other rate. Therefore, amounts in U.S. dollars have not been audited.

## 2. Summary of significant accounting policies:

*Consolidation*

The consolidated financial statements include the accounts of the Company and its significant subsidiaries (five subsidiaries in 2004 and six subsidiaries in 2005 and 2006, respectively). Consolidating adjustment account represents differences between the acquisition cost of investment in subsidiaries and the underlying equity in their net assets adjusted based on the fair value at the time of acquisition and is amortized over five years.

On 1 April 2005, NEC TOKIN Electronics (Taiwan) Co., Ltd. was renamed to MARUWA Electronics (Taiwan) Co., Ltd. On 1 April 2005, the Company acquired all the common stock of Kimmon Electric Co., Ltd., which was renamed to MARUWA SHOMEI Co., Ltd. Accordingly MARUWA SHOMEI Co., Ltd. has been included in the Company's consolidated results of operations and financial position for the year beginning 1 April 2005. On 1 January 2006, MARUWA QUARTZ Co., Ltd. merged with certain consolidated subsidiary, MARUWA TFG Co., Ltd. As the merged subsidiary had liquidated on 31 December 2005, the consolidated statements of income for the year ended 31 March 2006 included its 9-month operations from 1 April 2005 to 31 December 2005. All significant intercompany accounts and transactions have been eliminated. The unconsolidated subsidiaries are excluded from consolidation and the adoption of the equity method, and are stated at cost due to their insignificant effect on the consolidated financial statements taken as a whole.

*Cash and cash equivalents*

Cash and cash equivalents in the consolidated statements of cash flows are composed of cash on hand, bank deposits and marketable securities, both of which have original maturities of three months or less and which have minor risk of fluctuation in value.

*Investment securities*

Investment securities include available-for-sale securities and investments in unconsolidated subsidiaries. Available-for-sale securities are stated at fair value based on quoted market prices at the end of each fiscal year. Unrealized holding gains and losses, net of applicable income taxes, are included as a component of shareholders' equity until realized. Cost of sales for available-for-sale securities is calculated based on the moving average method. Investments for unconsolidated subsidiaries are recorded at cost.

*Inventories*

Inventories held by the Company are stated at cost determined by the moving average method. Inventories held by its consolidated subsidiaries are principally stated at the lower of moving average cost or market.

*Property, plant and equipment and property and equipment for investments*

Property, plant and equipment and property and equipment for investments are stated at cost. Depreciation is mainly computed using the declining-balance method, except for buildings acquired on or after 1 April 1998 which are depreciated using a straight-line method, by the Company and its domestic consolidated subsidiaries, and computed principally using the straight-line method by its overseas consolidated subsidiaries at rates based on estimated useful lives of the assets.

### *Allowance for doubtful accounts*

Allowance for doubtful accounts is calculated based on the aggregate amount of estimated credit losses for doubtful receivables plus an amount for receivables other than doubtful receivables calculated using historical write-off experience from certain prior periods.

### *Accrued bonus*

Accrued bonus to employees is based on the estimated amounts which MARUWA is obliged to pay to its employees in relation to services provided until the fiscal year-end.

### *Retirement benefits for employees*

MARUWA has principally recognized the retirement benefits for employees including pension cost and related liability based on actuarial present value of projected benefit obligation using actuarial appraisal approach and the pension plan assets available for benefits at the fiscal year-end.

Actuarial gains or losses are amortized using the straight-line method over certain years less than the average remaining service period of employee from the respective year following the fiscal year in which they arise.

### *(Additional information)*

The Company and a domestic subsidiary (MARUWA QUARTZ Co., Ltd.) applied the "Practical Guidance on Accounting for the Transfer between Retirement Benefits Plans" issued by the Accounting Standards Board of Japan and recognized an extinguishment of the retirement benefit obligation and recorded a gain for the settlement of the plan of ¥72 million ($613 thousand) as other income in the accompanying consolidated statements of operations for the year ended 31 March 2006.

### *Income taxes*

The income tax provision is computed based on the pretax income.

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

### *Lease transactions*

Where financing leases do not transfer ownership of the leased property to the lessee during the term of the lease, the leased property of the Company and its domestic consolidated subsidiaries is not capitalized and the relating rental and lease expenses are charged to income as incurred.

### *Foreign currency translation*

All assets and liabilities accounts of overseas consolidated subsidiaries are translated into Japanese yen at respective year-end rates. Shareholders' equity of overseas consolidated subsidiaries is translated at historical rates. All income and expenses are translated at an average rate. Translation differences are reported as foreign currency translation adjustment in a separate component of shareholders' equity in the accompanying consolidated balance sheets.

### *Appropriation of retained earnings*

Cash dividends and bonuses to directors and corporate auditors are recorded in the fiscal year when a proposed appropriation of retained earnings is approved by the Board of Directors and/or Shareholders. Bonuses paid to directors and corporate auditors are recorded as a part of the appropriation of retained earnings, instead of being charged to income, as permitted by the accounting principles and practices generally accepted in Japan.

### *Consumption tax*

The consumption tax under the Japanese Consumption Tax Law withheld by the Company and its domestic consolidated subsidiaries on sales of goods is not included in the amount of net sales in the accompanying consolidated statements of income and the consumption tax paid by the Company and its domestic consolidated subsidiaries under the law on purchases of goods and services, and expenses is not included in the related amount.

## 3. Accounting change - Adoption of new accounting standards for impairment of fixed assets:

On 9 August 2002, the Business Accounting Council of Japan issued new accounting standards entitled "Statement of Opinion on the Establishment of Accounting Standards for Impairment of Fixed Assets". Further, on 31 October 2003, the Accounting Standards Board of Japan issued Financial Accounting Standards Implementation Guidance No.6 - "Application Guidance on Accounting Standards for Impairment of Fixed Assets". These standards are effective from the fiscal years beginning 1 April 2005. The Company and its domestic consolidated subsidiaries have adopted these standards from the fiscal year ended 31 March 2006. As a result of this accounting change, there was no effect on the consolidated financial statements.

## 4. Supplemental cash flow information:

Cash and cash equivalents in the consolidated statements of cash flows are comprised of cash and deposits recorded in the consolidated balance sheets.

The acquisitions of new consolidated subsidiaries were as follows:

| | Millions of yen | | | Thousands of U.S. dollars |
|---|---|---|---|---|
| | 2005 | | **2006** | **2006** |
| | MARUWA QUARTZ | NEC TOKIN Electronics (Taiwan) | MARUWA SHOMEI | MARUWA SHOMEI |
| Current assets | ¥1,080 | ¥323 | **¥2,440** | **$20,771** |
| Non current assets | 725 | 172 | **429** | **3,652** |
| Current liabilities | (413) | (50) | **(2,196)** | **(18,694)** |
| Non current liabilities | (576) | — | **(319)** | **(2,716)** |
| Consolidating adjustment account | (183) | 55 | **(345)** | **(2,937)** |
| Total acquisition cost | 633 | 500 | **9** | **76** |
| Less, cash and cash equivalents | (137) | (222) | **(367)** | **(3,124)** |
| Cash outflow (inflow), net | ¥496 | ¥278 | **(¥358)** | **($3,048)** |

## 5. Investment securities:

Aggregate cost and market value (carrying value) of investment securities, which have market values at 31 March 2005 and 2006, were as follows:

| | Millions of yen | | |
|---|---|---|---|
| | 2005 | | |
| | Cost | Market value (Carrying amount) | Unrealized gain (loss) |
| Securities with the carrying amount exceeding acquisition costs | | | |
| Equity securities | ¥191 | ¥240 | ¥49 |
| Sub-total | 191 | 240 | 49 |
| Securities with the carrying amount not exceeding the cost | | | |
| Equity securities | 160 | 135 | (25) |
| Sub-total | 160 | 135 | (25) |
| Total | ¥351 | ¥375 | ¥24 |

| | Millions of yen | | |
|---|---|---|---|
| | **2006** | | |
| | Cost | Market value (Carrying amount) | Unrealized gain (loss) |
| Securities with the carrying amount exceeding acquisition costs | | | |
| Equity securities | **¥269** | **¥338** | **¥69** |
| Sub-total | **269** | **338** | **69** |
| Securities with the carrying amount not exceeding the cost | | | |
| Equity securities | **100** | **94** | **(6)** |
| Sub-total | **100** | **94** | **(6)** |
| Total | **¥369** | **¥432** | **¥63** |

| | Thousands of U.S. dollars | | |
|---|---|---|---|
| | 2006 | | |
| | Cost | Market value (Carrying amount) | Unrealized gain (loss) |
| Securities with the carrying amount exceeding acquisition cost | | | |
| Equity securities | **$2,290** | **$2,877** | **$587** |
| Sub-total | **2,290** | **2,877** | **587** |
| Securities with the carrying amount not exceeding the cost | | | |
| Equity securities | **851** | **800** | **(51)** |
| Sub-total | **851** | **800** | **(51)** |
| Total | **$3,141** | **$3,677** | **$536** |

During the years ended 31 March 2005 and 2006, MARUWA sold investment securities. Proceeds from sales of investment securities were ¥1 million and ¥437 million ($3,720 thousand) for the years ended 31 March 2005 and 2006, respectively. As a result of those sales, the Company recorded realized gains of ¥0 million and ¥146 million ($1,243 thousand) for the years ended 31 March 2005 and 2006, respectively.

## 6. Inventories:

Inventories at 31 March 2005 and 2006 were comprised of the following:

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | 2005 | 2006 | 2006 |
| Finished products | ¥1,076 | **¥1,024** | **$8,717** |
| Work in process | 888 | **1,045** | **8,896** |
| Raw materials | 406 | **623** | **5,303** |
| Supplies | 184 | **177** | **1,507** |
| Total | ¥2,554 | **¥2,869** | **$24,423** |

## 7. Bank loans and long-term debt:

Borrowings at 31 March 2005 and 2006 were comprised of the following:

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | 2005 | 2006 | 2006 |
| Partly secured loans principally from banks, due through 2036 with a weighted average interest rate of 1.6% per annum at 31 March 2006 | ¥482 | **¥335** | **$2,852** |
| Less-Current portion due within one year | (147) | **(147)** | **(1,252)** |
| Total | ¥335 | **¥188** | **$1,600** |

The aggregate amounts of annual maturities of long-term debt are as follows:

| Year ending 31 March | Millions of yen | Thousands of U.S. dollars |
|---|---|---|
| 2007 | ¥147 | $1,252 |
| 2008 | 53 | 451 |
| 2009 | 5 | 43 |
| 2010 | 5 | 43 |
| 2011 | 5 | 43 |
| 2012 and thereafter | 120 | 1,020 |
| Total | ¥335 | $2,852 |

## 8. Assets pledged as collateral:

Assets pledged as collateral at 31 March 2005 and 2006 were as follows:

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | 2005 | **2006** | **2006** |
| Land | ¥130 | **¥130** | **$1,107** |
| Buildings and structures | 201 | **190** | **1,617** |
| Total | ¥331 | **¥320** | **$2,724** |

Related liabilities secured by the pledged asset at 31 March 2005 and 2006 were as follows:

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | 2005 | **2006** | **2006** |
| Current portion of long-term debt | ¥5 | **¥5** | **$43** |
| Long-term debt | 144 | **139** | **1,183** |
| Total | ¥149 | **¥144** | **$1,226** |

## 9. Investments in unconsolidated subsidiaries:

Investment securities and other assets included investments in unconsolidated subsidiaries at 31 March 2005 and 2006 as follows:

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | 2005 | **2006** | **2006** |
| Investment securities | ¥325 | **¥351** | **$2,988** |
| Other | 31 | **31** | **264** |

## 10. Related party transactions:

For the years ended 31 March 2004 and 2005, there were no related party transactions. For the year ended 31 March 2006, the Company purchased lands from Mine Hayashi and Shoji Hayashi with the considerations of ¥117 million ($996 thousand) and ¥26 million ($221 thousand), respectively. Mine Hayashi and Shoji Hayashi are the relatives of Sei Kanbe, the president of the Company. The transaction amounts were determined based on the appraisal valuations.

## 11. Income taxes:

Significant components of the deferred tax assets and liabilities at 31 March 2005 and 2006 were as follows:

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | 2005 | **2006** | **2006** |
| Deferred tax assets: | | | |
| Accrued retirement benefits | ¥111 | **¥138** | **$1,175** |
| Accrued bonus | 66 | **124** | **1,056** |
| Operating loss carry forwards for tax purposes | 321 | **145** | **1,234** |
| Investment securities | 15 | **—** | **—** |
| Write-down of inventories | 116 | **86** | **732** |
| Depreciation | 47 | **—** | **—** |
| Write-down of land | 24 | **39** | **332** |
| Accrued enterprise taxes | 21 | **30** | **255** |
| Unrealized foreign exchange | — | **64** | **545** |
| Other | 60 | **68** | **579** |
| Total gross deferred tax assets | 781 | **694** | **5,908** |
| Less, valuation allowance | (169) | **(220)** | **(1,873)** |
| Total deferred tax assets | 612 | **474** | **4,035** |
| Deferred tax liabilities: | | | |
| Depreciation | — | **(109)** | **(928)** |
| Special depreciation reserve | — | **(23)** | **(196)** |
| Gain on securities contributed to trust for employee retirement benefits | (29) | **—** | **—** |
| Net unrealized gains on available-for-sale securities | (11) | **(26)** | **(221)** |
| Other | (7) | **—** | **—** |
| Total deferred tax liabilities | (47) | **(158)** | **(1,345)** |
| Net deferred tax assets | ¥565 | **¥316** | **$2,690** |

Reconciliation of differences between the statutory rate of income taxes and the effective rate of income taxes for the years ended 31 March 2005 and 2006 were as follows:

| | 2005 | **2006** |
|---|---|---|
| Statutory rate of income taxes | 40.41% | **40.41%** |
| Addition (reduction) in taxes resulting from: | | |
| Local minimum taxes per capita levy | 1.79 | **1.56** |
| Change in valuation allowance | (29.62) | **3.09** |
| Differences between Japanese and foreign tax rates | (7.15) | **(3.18)** |
| Tax credit for research and development expenses | — | **(1.56)** |
| Amortization of consolidating adjustment account (negative goodwill) | (5.33) | **(5.17)** |
| Special depreciation reserve | — | **(1.38)** |
| Other | (3.91) | **(1.76)** |
| Effective rate of income taxes | (3.81%) | **32.01%** |

## 12. Shareholders' equity:

At 31 March 2005 and 2006, respectively, capital surplus consisted of additional paid-in capital.

Under the Commercial Code of Japan, a company is required to appropriate an amount equal to at least 10% of cash dividends paid and other cash distributions from retained earnings to legal reserve. This appropriation is continued until the total amount of additional paid-in capital and legal reserve becomes 25% of the common stock amount. The legal reserve is not available for dividends but may be used to reduce a deficit with shareholder approval or can be capitalized by resolution of the Board of Directors. Retained earnings presented in the accompanying consolidated balance sheets included such legal reserve of ¥1,671 million ($14,225 thousand) as at 31 March 2005 and 2006, respectively.

The following appropriations of retained earnings at 31 March 2006 were approved at the general meeting of shareholders held on 27 June 2006. These appropriations were not recorded in the consolidated financial statements for the year ended 31 March 2006.

| | Millions of yen | Thousands of U.S. dollars |
|---|---|---|
| Appropriation for: | | |
| Cash dividends ¥12.0 ($0.10) per common share | ¥131 | $1,115 |
| Directors' bonus | ¥5 | $43 |
| Special depreciation reserve | ¥34 | $289 |

## 13. Net income per share:

Calculations of net income per share for the years ended 31 March 2004, 2005 and 2006 were as follows:

| | Millions of yen | | | Thousands of U.S. dollars |
|---|---|---|---|---|
| | 2004 | 2005 | **2006** | **2006** |
| Net income attributable to common shares | ¥469 | ¥1,215 | **¥1,130** | **$9,619** |
| Weighted average number of common shares outstanding: | | | | |
| -Basic | 10,985,513 | 10,814,036 | **10,880,952** | |
| -Diluted | 10,985,513 | 10,834,479 | **10,944,731** | |

| | Yen | | | U.S. dollars |
|---|---|---|---|---|
| | 2004 | 2005 | **2006** | **2006** |
| Net income per share: | | | | |
| -Basic | ¥42.67 | ¥112.40 | **¥103.82** | **$0.88** |
| -Diluted | ¥42.67 | ¥112.18 | **¥103.21** | **$0.88** |

## 14. Contingent liabilities:

MARUWA had contingent liabilities for trade notes discounted with the bank amounting to ¥3 million and ¥5 million ($43 thousand) at 31 March 2005 and 2006, respectively.

## 15. Leased assets:

Periodic lease payments under finance lease contracts totaled ¥18 million and ¥26 million ($221 thousand) for the years ended 31 March 2005 and 2006, respectively. The relating lease expenses were charged to income. Committed future lease payments, including imputed interest portion, at 31 March 2005 and 2006 were as follows:

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | 2005 | **2006** | **2006** |
| Within one year | ¥11 | **¥18** | **$153** |
| Later years | 12 | **14** | **119** |
| Total | ¥23 | **¥32** | **$272** |

An analysis of amounts, as if they had been capitalized, related to leased assets under finance lease contracts, which were not capitalized at 31 March 2005 and 2006 were as follows:

| | Millions of yen | | | | Thousands of U.S. dollars | | |
|---|---|---|---|---|---|---|---|
| | 2005 | **2006** | | | **2006** | | |
| | Machinery and equipment | Machinery and equipment | Other | Total | Machinery and equipment | Other | Total |
| Acquisition cost | ¥97 | **¥97** | **¥60** | **¥157** | **$826** | **$511** | **$1,337** |
| Accumulated depreciation | (74) | **(84)** | **(41)** | **(125)** | **(715)** | **(350)** | **(1,065)** |
| Net amount | ¥23 | **¥13** | **¥19** | **¥32** | **$111** | **$161** | **$272** |

Depreciation and interest expenses related to these leased assets, if they had been capitalized, for the years ended 31 March 2005 and 2006 were estimated ¥18 million and ¥26 million ($221 thousand), respectively. Depreciation is computed using a straight-line method over the term of the underlying lease contracts.

## 16. Selling, general and administrative expenses:

Selling, general and administrative expenses for the years ended 31 March 2004, 2005 and 2006 were comprised of the following:

| | Millions of yen | | | Thousands of U.S. dollars |
|---|---|---|---|---|
| | 2004 | 2005 | **2006** | **2006** |
| Directors' remuneration | ¥89 | ¥79 | **¥70** | **$596** |
| Salaries and bonuses | 531 | 697 | **1,106** | **9,415** |
| Provision for bonus | 52 | 73 | **120** | **1,022** |
| Retirement benefit expenses | 25 | 34 | **47** | **400** |
| Distribution costs | — | 338 | **—** | **—** |
| Depreciation | 192 | 177 | **200** | **1,703** |
| Research and development costs | 468 | 554 | **685** | **5,831** |
| Other | 938 | 1,033 | **1,863** | **15,859** |
| Total | ¥2,295 | ¥2,985 | **¥4,091** | **$34,826** |

## 17. Research and development costs:

Research and development costs charged to costs of sales and selling, general and administrative expenses were ¥468 million, ¥554 million and ¥711 million ($6,053 thousand) for the years ended 31 March 2004, 2005 and 2006, respectively.

## 18. Derivative financial instruments:

The only derivatives used by the Company are foreign exchange forward contracts in order to manage exposures resulting from fluctuations in foreign currency exchange associated with certain assets and liabilities denominated in foreign currencies. The Company does not use derivative transactions for speculative or trading purposes.

The Company establishes credit guidelines and only enters into transactions with financial institutions of investment grade. The Company considers the risk of counter-party default to be minimal.

The execution and control of foreign exchange forward contracts were managed by the financial department applying internal policies which regulate the authorization and credit limit amount. At 31 March 2004, aggregate contract balances of derivative instruments, other than those accounted for by the hedge accounting, amounted to ¥54 million. Relating unrealized losses of ¥2 million were recorded as other expenses for the year ended 31 March 2004. At 31 March 2005 and 2006 MARUWA had no outstanding derivative instrument contracts.

## 19. Retirement benefits for employees:

The Company and a domestic subsidiary (MARUWA QUARTZ Co., Ltd.) maintain a defined contribution pension plan. In addition, a domestic subsidiary (MARUWA SHOMEI Co., Ltd.) maintains tax qualified pension plan and lump-sum retirement benefit plan, both of which are non-contributory defined benefit pension plans. In July 2005, the Company and a domestic subsidiary (MARUWA QUARTZ Co., Ltd.) transferred the entire tax qualified pension plan and lump-sum indemnities plan to the defined contribution pension plan.

The defined contribution pension plan was adopted by the Company and a domestic subsidiary (MARUWA QUARTZ Co., Ltd.) in 2005. The lump-sum indemnities plan was adopted by a domestic subsidiary (MARUWA SHOMEI Co., Ltd.) in 2005. The tax qualified pension plan was adopted by a domestic subsidiary (MARUWA SHOMEI Co., Ltd.) in 1973.

(1) Components of accrued pension and severance costs as of 31 March 2005 and 2006 were as follows:

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | 2005 | **2006** | **2006** |
| Benefit obligations | ¥1,254 | **¥351** | **$2,988** |
| Plan assets | (236) | **(41)** | **(349)** |
| Benefit obligations in excess of plan assets | 1,018 | **310** | **2,639** |
| Unrecognized actuarial losses | (160) | **(10)** | **(85)** |
| Accrued retirement benefits | ¥858 | **¥300** | **$2,554** |

(2) Components of retirement benefit expenses for the years ended 31 March 2004, 2005 and 2006 were as follows:

| | Millions of yen | | | Thousands of U.S. dollars |
|---|---|---|---|---|
| | 2004 | 2005 | **2006** | **2006** |
| Service cost | ¥41 | ¥71 | **¥88** | **$749** |
| Interest cost | 6 | 21 | **14** | **119** |
| Expected return on plan assets | (1) | (3) | **(1)** | **(9)** |
| Amortization of actuarial losses | 10 | 4 | **8** | **68** |
| Lump-sum provision for the change from the simplified calculation method to the actuarial appraisal method | 20 | — | **—** | **—** |
| Total retirement benefit expenses | ¥76 | ¥93 | **¥109** | **$927** |

(3) Assumptions used for calculation of retirement benefits for the years ended 31 March 2004, 2005 and 2006 were as follows:

| | 2004 | 2005 | **2006** |
|---|---|---|---|
| Discount rate | 2.5% | 2.0% | **2.2%** |
| Expected return on plan assets | 2.0% | 2.0% | **2.2%** |
| Method of attributing estimated retirement benefits to periods of employee service | Straight-line method | Straight-line method | **Straight-line method** |
| Amortization period of unrecognized actuarial gains or losses | 10 years | 10 years | **11 years** |

## 20. Segment information:

(1) Business segments

Business segment data for the years ended 31 March 2004 and 2005 is not presented as MARUWA operated predominately in a single business segment that represented manufacturing and selling electronic components and ceramics for electronic parts in Japan and foreign countries. Information for business segment for the year ended 31 March 2006 was as follows:

| | Millions of yen | | | |
|---|---|---|---|---|
| | **2006** | | | |
| | Ceramic Components | Lighting Equipment | Eliminations or corporate | Consolidated |
| Sales: | | | | |
| To customers | **¥16,628** | **¥3,650** | **¥ —** | **¥20,278** |
| Inter-segment | **—** | **—** | **—** | **—** |
| Total net sales | **16,628** | **3,650** | **—** | **20,278** |
| Operating expenses | **14,394** | **3,677** | **514** | **18,585** |
| Operating income (loss) | **¥2,234** | **(¥27)** | **(¥514)** | **¥1,693** |
| Identifiable assets | **¥31,861** | **¥2,764** | **(¥1,581)** | **(¥33,044)** |
| Depreciation | **¥1,592** | **¥22** | **¥ —** | **¥1,614** |
| Capital expenditure | **¥1,716** | **¥21** | **¥ —** | **¥1,737** |

| | Thousands of U.S. dollars | | | |
|---|---|---|---|---|
| | **2006** | | | |
| | Ceramic Components | Lighting Equipment | Eliminations or corporate | Consolidated |
| Sales: | | | | |
| To customers | **$141,551** | **$31,072** | **$ —** | **$172,623** |
| Inter-segment | **—** | **—** | **—** | **—** |
| Total net sales | **141,551** | **31,072** | **—** | **172,623** |
| Operating expenses | **122,533** | **31,302** | **4,376** | **158,211** |
| Operating income (loss) | **$19,018** | **($230)** | **($4,376)** | **$14,412** |
| Identifiable assets | **$271,227** | **$23,529** | **($13,459)** | **$281,297** |
| Depreciation | **$13,552** | **$188** | **$ —** | **$13,740** |
| Capital expenditure | **$14,608** | **$179** | **$ —** | **$14,787** |

(2) Geographical segments

| | Japan | Asia | Europe and America | Eliminations or corporate | Consolidated |
|---|---|---|---|---|---|
| | Millions of yen | | | | |
| | 2004 | | | | |
| Sales: | | | | | |
| To customers | ¥8,877 | ¥2,707 | ¥419 | ¥ — | ¥12,003 |
| Inter-segment | 567 | 1,003 | 2 | (1,572) | — |
| Total net sales | 9,444 | 3,710 | 421 | (1,572) | 12,003 |
| Operating expenses | 8,776 | 3,127 | 508 | (1,094) | 11,317 |
| Operating income (loss) | ¥668 | ¥583 | (¥87) | (¥478) | ¥686 |
| Identifiable assets | ¥23,804 | ¥6,382 | ¥853 | (¥4,375) | ¥26,664 |

| | Japan | Asia | Europe and America | Eliminations or corporate | Consolidated |
|---|---|---|---|---|---|
| | Millions of yen | | | | |
| | 2005 | | | | |
| Sales: | | | | | |
| To customers | ¥11,641 | ¥3,384 | ¥504 | ¥ — | ¥15,529 |
| Inter-segment | 805 | 1,068 | 2 | (1,875) | — |
| Total net sales | 12,446 | 4,452 | 506 | (1,875) | 15,529 |
| Operating expenses | 11,131 | 3,725 | 584 | (1,268) | 14,172 |
| Operating income (loss) | ¥1,315 | ¥727 | (¥78) | (¥607) | ¥1,357 |
| Identifiable assets | ¥21,609 | ¥7,464 | ¥908 | (¥1,516) | ¥28,465 |

| | Japan | Asia | Europe and America | Eliminations or corporate | Consolidated |
|---|---|---|---|---|---|
| | Millions of yen | | | | |
| | **2006** | | | | |
| Sales: | | | | | |
| To customers | **¥16,171** | **¥3,528** | **¥579** | **¥ —** | **¥20,278** |
| Inter-segment | **830** | **1,349** | **2** | **(2,181)** | **—** |
| Total net sales | **17,001** | **4,877** | **581** | **(2,181)** | **20,278** |
| Operating expenses | **15,355** | **4,206** | **617** | **(1,593)** | **18,585** |
| Operating income (loss) | **¥1,646** | **¥671** | **(¥36)** | **(¥588)** | **¥1,693** |
| Identifiable assets | **¥25,610** | **¥8,632** | **¥835** | **(¥2,033)** | **¥33,044** |

| | Japan | Asia | Europe and America | Eliminations or corporate | Consolidated |
|---|---|---|---|---|---|
| | Thousands of U.S. dollars | | | | |
| | **2006** | | | | |
| Sales: | | | | | |
| To customers | **$137,661** | **$30,033** | **$4,929** | **$ —** | **$172,623** |
| Inter-segment | **7,066** | **11,484** | **17** | **(18,567)** | **—** |
| Total net sales | **144,727** | **41,517** | **4,946** | **(18,567)** | **172,623** |
| Operating expenses | **130,715** | **35,805** | **5,252** | **(13,561)** | **158,211** |
| Operating income (loss) | **$14,012** | **$5,712** | **($306)** | **($5,006)** | **$14,412** |
| Identifiable assets | **$218,013** | **$73,483** | **$7,108** | **($17,307)** | **$281,297** |

Principal countries or jurisdictions in each geographic segment are as follows:

Asia: Malaysia and Taiwan

Europe and America: the United Kingdom

Operating expenses of ¥449 million, ¥603 million and ¥571 million ($4,861 thousand) included in "Eliminations or corporate" for the years ended 31 March 2004, 2005 and 2006, respectively, were unallocated items related mainly to cost of administrative and management division in the Company.

The amount of corporate assets included in "Eliminations or corporate" were ¥4,800 million, ¥4,309 million and ¥3,751 million ($31,932 thousand) at 31 March 2004, 2005 and 2006, respectively, and mainly consisted of surplus funds (cash) and long-term investment funds (investment securities and others) owned by the Company.

Overseas sales for the years ended 31 March 2004, 2005 and 2006 were as follows:

| | Millions of yen | | | |
|---|---|---|---|---|
| | 2004 | | | |
| | Asia | Europe | Other | Total |
| Overseas sales | ¥5,019 | ¥287 | ¥376 | ¥5,682 |
| Total consolidated sales | | | | ¥12,003 |
| Percentage | 41.8% | 2.4% | 3.1% | 47.3% |

| | Millions of yen | | | |
|---|---|---|---|---|
| | 2005 | | | |
| | Asia | Europe | Other | Total |
| Overseas sales | ¥5,677 | ¥356 | ¥430 | ¥6,463 |
| Total consolidated sales | | | | ¥15,529 |
| Percentage | 36.6% | 2.3% | 2.7% | 41.6% |

| | Millions of yen | | | |
|---|---|---|---|---|
| | **2006** | | | |
| | Asia | Europe | Other | Total |
| Overseas sales | **¥6,376** | **¥375** | **¥495** | **¥7,246** |
| Total consolidated sales | | | | **¥20,278** |
| Percentage | **31.4%** | **1.9%** | **2.4%** | **35.7%** |

| | Thousands of U.S. dollars | | | |
|---|---|---|---|---|
| | **2006** | | | |
| | Asia | Europe | Other | Total |
| Overseas sales | **$54,278** | **$3,192** | **$4,214** | **$61,684** |
| Total consolidated sales | | | | **$172,623** |

Principal countries or jurisdictions in each geographic segment are as follows:

Asia: Malaysia, Taiwan, Korea and Hong Kong

Europe: Germany and the United Kingdom

Other: the United States of America

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# Report of Independent Auditors

To the Board of Directors and Shareholders of MARUWA CO., LTD.

We have audited the accompanying consolidated balance sheets of MARUWA CO., LTD. and its consolidated subsidiaries as of 31st March 2005 and 2006, and the related consolidated statements of income, shareholders' equity, and cash flows for each of the three years in the period ended 31st March 2006, 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 MARUWA CO., LTD. and its consolidated subsidiaries as of 31st March 2005 and 2006 and the consolidated results of their operations and their cash flows for each of the three years in the period ended 31st March 2006 in conformity with accounting principles generally accepted in Japan.

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.

ChuoAoyama PricewaterhouseCoopers

ChuoAoyama PricewaterhouseCoopers
Nagoya, Japan
27th June 2006

# Global Network

(As of June 2006)

## Offices and Plants

**Head Office**
3-83, Minamihonjigahara-cho, Owariasahi-shi, Aichi 488-0044, Japan

**Hokkaido Sales Office**
1007-47, Izumisawa, Chitose-shi, Hokkaido 066-0051, Japan

**Tohoku Sales Office**
7-1, Odaira, Kumagami, Miharu-machi, Tamura-gun, Fukushima 963-7704, Japan

**Hokushinetsu Sales Office**
1-4, Fukuda, Joetsu-shi, Niigata 942-0032, Japan

**Kitakanto Sales Office**
750 Shimoakasaka, Kawagoe-shi, Saitama 350-1150, Japan

**Tokyo Sales Office**
2-17-8, Shinyokohama, Kouhoku-ku, Yokohama-shi, Kanagawa 222-0033, Japan

**Kansai Sales Office**
2-8-26, Arakawa, Higashiosaka-shi, Osaka 577-0843, Japan

**Kyushukita Sales Office**
3-13-10, Higashihie, Hakata-ku, Fukuoka-shi, Fukuoka 812-0013, Japan

**Kyushuminami Sales Office**
1462-17, Imaizumihei, Kiyotake-cho, Miyazaki-gun, Miyazaki 889-1602, Japan

**Toki Plant**
2322-3, Kakinohirohata, Tsurusato-cho, Toki-shi, Gifu 509-5312, Japan

**Seto Plant**
92-1, Yamanota-cho, Seto-shi, Aichi 489-0975, Japan
★Seto Plant was renamed from Yamanota Plant in April 2006.

**Kasugayama Plant**
3-2-6, Kasugayama-machi, Joetsu-shi, Niigata 943-0807, Japan

**Naoetsu Plant**
1-4, Fukuda, Joetsu-shi, Niigata 942-0032, Japan

## Domestic Subsidiaries

**MARUWA QUARTZ Co., Ltd.**
3-83, Minamihonjigahara-cho, Owariasahi-shi, Aichi 488-0044, Japan

**MARUWA SHOMEI Co., Ltd.**
750 Shimoakasaka, Kawagoe-shi, Saitama 350-1150, Japan

## Overseas Subsidiaries

**Maruwa (Malaysia) Sdn. Bhd.**
Lot 27 & 28, Batu Berendam, Ftz., Phase 3, Industrial Estate, 75350, Melaka, Malaysia

**Taiwan Maruwa Co., Ltd.**
1F, No.30, Sec.2, Chung Cheng Road, Taipei, Taiwan

**Maruwa Korea Co.,Ltd.**
926-11, Pyoungchon-dong, Dongan-ku, Anyang-si, Kyungki-do, Republic of Korea

**MARUWA ELECTRONICS (HK) Co., Ltd.**
Suite No.B, 17th/fl, Ritz Plaza, No.122 Austin Road, Kowloon, Hong Kong S. A. R.

**Maruwa (Shanghai) Trading Co., Ltd.**
Room 1010B, No.83 Loushanguan Rd. Shanghai 200336, China

**Maruwa Europe Ltd.**
The Boulevard Orbital Park, Ashford, Kent TN24 0GA, U.K.

**Maruwa America Corporation**
360 N. Sepulveda Blvd Suite 2060 El Segundo, CA 90245 U.S.A.

**MARUWA Electronic (Taiwan) Co., Ltd.**
No.1-2 Kai-Fa Road, Nan-Tze Export Processing Zone, Kaohsiung, Taiwan

**MARUWA Electronic (India) Pvt. Ltd.**
GDR Towers, No.69, Jawaharlal Nehru Salai, Ekkaduthangal, Chennai, 600097 India

**Maruwa Electronics (Beijing) Co., Ltd.**
No.1117, Block C, Jiahao International Center, No.116, Zizhuyuan Road, Haidian District, Beijing 100097 China

## Corporate Data (As of 27 June 2006)

**Head Office**
3-83, Minamihonjigahara-cho, Owariasahi-shi,
Aichi 488-0044, Japan
TEL: +81-561-51-0841
FAX: +81-561-51-0845

**Established**
5 April 1973

**Paid-in Capital**
¥6,709,850,000

## Management (As of 27 June 2006)

### Board of Directors

**President and Representative Director**
Sei Kanbe

**Directors**
Chunting Li
Manimaran Anthony
Tetsuya Nagamitsu
Akira Uchida

### Corporate Auditors

**Standing Auditor**
Koji Chujo

**Outside Corporate Auditors**
Toshihiro Yamanaka
Katsuhiro Muranaka

### Operating Officers

**Managing Operating Officers**
Chunting Li
Manimaran Anthony

**Operating Officers**
Akira Uchida
Hiroyuki Kojima
Masaaki Tanaka
Kunito Niwa

## Stock Information (As of 31 March 2006)

**Common Stock**

| | |
|---|---|
| Authorized | 26,000,000 shares |
| Issued | 11,072,000 shares |
| Number of shareholders | 3,799 |
| Stock exchange listings | Tokyo, Nagoya, London, Singapore |

**Principal Shareholders**

| | Shares | Percentage* |
|---|---|---|
| K Maruwa Co., Ltd | 3,302,120 | 29.82 |
| Japan Trustee Services Bank, Ltd. (Trust Account) | 1,047,500 | 9.46 |
| Lombard Odier Darier Hentsch & Cie | 471,100 | 4.25 |
| Dexia BIL Pool Julius Baer Multipartner Multistock | 375,700 | 3.39 |
| Goldman Sachs International | 335,000 | 3.02 |
| The Master Trust Bank of Japan, Ltd. (Trust Account) | 326,900 | 2.95 |
| Sei Kanbe | 287,070 | 2.59 |

*Percentage of total number of shares in issue

**Transfer Agent**
The Chuo Mitsui Trust and Banking Company, Limited

MARUWA

www.maruwa-g.com

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