

MARUWA CO., LTD.

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**Final Results for Fiscal 2006**

MARUWA CO., LTD. today announced its consolidated business results for the full fiscal year ended 31st March, 2006 as follows;

\*The financial statements are prepared in conformity with the accounting principles generally accepted in Japan.

\*US dollar amounts are converted for convenience only at the rate of US\$1 = JPY113.42.

\*Consolidated subsidiaries: 6 companies (Maruwa (Malaysia) Sdn. Bhd., Taiwan Maruwa Co., Ltd., MARUWA Electronics (Taiwan) Co., Ltd., Maruwa Europe Ltd., MARUWA QUARTZ Co., Ltd., and MARUWA SHOMEI Co., Ltd.)

**I. Summary of Consolidated Results****(1) Summary of consolidated statement of income**

	JPY million		Change %	USD thousand
	For year ended 31st March 2006	For year ended 31st March 2005		For year ended 31st March 2006
Net sales	<b>20,278</b>	15,529	30.6%	178,788
Operating income	<b>1,693</b>	1,357	24.8%	14,930
Income before income taxes	<b>1,669</b>	1,180	41.4%	14,713
Net income	<b>1,135</b>	1,225	-7.3%	10,004
		JPY		USD
Net income per share (yen)	<b>103.82</b>	112.40	-7.6%	0.92
Return on equity (ROE) (%)	<b>4.5%</b>	5.1%		
*Average number of issued shares	<b>10,880,952</b>	10,814,036		

**(2) Summary of consolidated financial condition**

	JPY million		Change %	USD thousand
	As of 31st March 2006	As of 31st March 2005		As of 31st March 2006
Total Assets	<b>33,044</b>	28,465	16.1%	291,338
Shareholders' equity	<b>26,557</b>	24,328	9.2%	234,143
Shareholders' equity ratio	<b>80.4%</b>	85.5%	-5.1%	
		JPY		USD
Shareholders' equity per share	<b>2,423.40</b>	2,256.48	7.4%	21.37
*Number of issued shares at year end	<b>10,956,360</b>	10,777,260		

**(3) Summary of consolidated statement of cash flows**

	JPY million		Change %	USD thousand
	For year ended 31st March 2006	For year ended 31st March 2005		For year ended 31st March 2006
Net cash provided by operating activities	<b>2,036</b>	3,319	-38.7%	17,948
Net cash used in investing activities	<b>(1,234)</b>	(2,062)	40.2%	(10,878)
Net cash used in financing activities	<b>51</b>	(583)	108.7%	454
Cash and cash equivalents at end of term	<b>7,899</b>	6,935	13.9%	69,642

**II. Outlook for the fiscal 2007**

	JPY million	
	Interim	Full year
Net sales	<b>10,220</b>	<b>24,530</b>
Net income	<b>710</b>	<b>1,690</b>
Net income per share	<b>--</b>	<b>154.25</b>

\*Cautionary statements: the above forecasts are forward-looking statements involving risks and uncertainties. Due to a number of factors, actual results may differ significantly from these estimates.

## Management Policies

### (1) Basic management policy

Based on the basic corporate principle - The three roots of our trunk: Advancement of the company, Welfare of the workforce, and Satisfaction of the shareholders,- MARUWA group strives to differentiate us from our peers by consistently being professional of material technology and following quality first policy, and to enhance the corporate value to meet the expectations of all the stakeholders.

Based on this policy, it is MARUWA's management policy to survive among severe global business competition as well as to develop No.1 products in global niche markets by reinforcing its core business with a selection and concentration strategy.

### (2) Dividend policy

As a profit allocation policy, MARUWA considers to allocate acquired cash-flows through operations to active investment into new growing areas, consolidated results-considered dividends, and the appropriation of retained earnings for flexible use against management environment changes. We have made efforts to increase dividends since the previous term, focusing on profit returns to shareholders while we hold the internal reserves for strategic investment required to expand our core business continuously. Meanwhile, we do not plan to change our dividend payment policy after the new corporate law took effect in Japan.

### (3) Targeted management indices

MARUWA emphasizes operating income ratio as an important index to indicate profitability. We set a medium-to-long term target, operating income ratio 20%. For this goal, we are determined to establish profit-acquiring system of production and sales together toward solid growth in the electronic components industry amid rapid changes and severe competition.

### (4) Business strategies in medium-to-long term

We have enforced to build up an operational system responsive to market changes, learning from the management lessons of the IT bubble and its collapse in 2000 and 2001. As a result, we achieved the enhancement of financial condition and the establishment of profitability. Now the whole MARUWA group is focusing on the mid-term target - total sales 40 billion yen / operating income margin 20%.

For a medium-to-long term growth strategy, in addition to the development and creation of new products and businesses within the company, we will maintain our M&A strategy to acquire business or products that could create a synergetic effect with our material technology and other base technologies and product line-ups.

Together with above expansion strategy, MARUWA aims for being “a respected company” by sticking with the basis of manufacturing, and contributing to local societies with fulfillment of social responsibility.

## Management issues

### 1. Enhance the businesses acquired through M&A

The businesses acquired through M&A in the past have grown by management efforts from deficit to the level that can contribute to revenue. We will start working for new growth, further enhancing the business structure as well as adding synergetic effects with our core businesses.

### 2. Start the mass-production of new developed products

We will start the mass-production of the products developed with our unique material technology to earn profits aggressively.

### 3. Improve material technology and product development capability

For more customers' satisfaction, each product will be staffed with sales engineers in charge of product planning and development in order to supply products that meet the needs of customers in rapidly changing markets in the name of 'MARUWA of material technology'.

#### 4. Strengthen the sales force in overseas

To increase sales in the global manufacturing areas of our customers and the markets of important international companies, we will strengthen and increase overseas sales sites, take the needs of customers in advance, expand new customers, and improve our market shares. Also, the global manufacturing system will be strengthened with a production site in India as well as a factory in Malaysia.

#### (5)Parent company

##### 1. Corporate name and other matters of parent company

Parent company	Attribute	Ratio of shareholder voting right held by the parent company	Stock exchange on which the shares the parent company issues are listed
K Maruwa Co., Ltd.	In case the listed company is a related company of other companies, one of such other companies	30.21%	None

##### 2. Position of the listed company in the corporate group, and relationships between the parent company and other companies in the group in trading, personnel and capital

###### i) Additional posts of the directors

Position	Name	Position at the parent company	Reason
Representative director	Sei Kanbe	Representative director of K Maruwa Co., Ltd.	Requested by the parent company
Auditor	Koji Chujo	Auditor	Requested by the parent company

Only 2 persons listed above out of the 5 directors and 3 auditors of MARUWA have additional posts at the parent company.

ii) Restrictions, risks and merits concerning the parent company due to the belonging to the group which includes the parent company, and influences to management and operation concerning relationships with the parent company and the other companies of the group in trading, personnel and capital.

There is no connection between the business operations of MARUWA group and the business of K Maruwa Co., Ltd, which mainly engages in the supportive activities for a foundation for promoting arts and culture, and loan business on real property.

There is a payment to K Maruwa of a negligible amount of rent on real estate (less than 1 million yen a year) through which K Maruwa gives neither restriction, risk, nor influence on management and operating activities.

iii) Policy to ensure stable independency and measures for it if there is any restrictions, risks and merits concerning the parent company due to the belonging to the group which includes the parent company, and influences to management and operation concerning relationships with the parent company and the other companies of the group in trading, personnel and capital.

The situation that the directors of MARUWA have additional positions at K Maruwa does not prevent our management from being independent. The trading with K Maruwa gives no influence to our operations.

###### iv) Conditions to ensure stable independence from the parent company

The independence of MARUWA is secured without any operational restrictions by K Maruwa.

3. Trading with the parent company

There is a payment to K Maruwa of a negligible amount of rent on real estate (less than 1 million yen a year)

## Review of Operations and Financial Condition

### I. Operating Results

#### Quarterly

JPY million

	Fiscal 2005				Fiscal 2006			
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q
Net sales	4,176	3,981	3,757	3,615	4,481	4,524	5,082	6,191
Operating income	308	380	378	291	398	321	522	452
Net income	156	599	352	118	51	231	399	454

#### Full year

JPY million

	Previous	Current
	For year ended 31st March 2005	For year ended 31st March 2006
Net sales	15,529	20,278
Operating income	1,357	1,693
Net income	1,225	1,135

#### (1) Review of operations

The management situation in the fiscal 2006 shifted to a recovery trend by a recovery in exports mainly for Asia as inventory adjustments were eased in IT-related markets. A favorable business environment was created by a private consumption increase influenced by a favorable demand in corporate sector due to an autonomous recovery trend of Japanese economy along with the increase of overseas demands.

Under these circumstances, MARUWA group also generally benefited from the recovery of the electronic components market partially except for the semiconductor equipment-related business. Also due to sales contribution by the lighting equipment business which has been consolidated since this fiscal year, net sales increased 30.6% to 20,278 million yen compared to the last year.

Operating income except for Lighting Equipment segment also increased 64.6% to 2,234 million yen compared to the previous year thanks to the effects of the various measures carried on in recent years, including cut-down of inventories, lead-time reduction, quality and yield rate improvement, production enhancement by saving cost, restructuring of acquired businesses which had been in deficit and product lineups, and profitability improvement of new products.

The Lighting Equipment business, however, was not able to turn to the black, and resulted in a loss of 27 million yen despite of our efforts to integrate sales offices and to cut operating expenses.

As a result, operating income was 1,693 million yen, an increase of 24.8% compared to the previous year.

Net income was 1,135 million yen, a decrease of 7.4% compared to the last year due mainly to the payment of 261 million yen as retirement benefits for directors on the termination of this retirement benefits system.

Regarding these operating situations above and profit returns to shareholders, we will pay 12 yen per share as dividend, total 21 yen for annual dividend, an increase of 6 yen compared to the annual dividend 15 yen for the last year.

## (2) Review of operating results by segment

	JPY million	
	Previous	Current
	For year ended 31st March 2005	For year ended 31st March 2006
<b>Ceramic Components:</b>		
Net sales	15,529	<b>16,628</b>
Operating income	1,357	<b>2,234</b>
<b>Lighting Equipment:</b>		
Net sales	-	<b>3,650</b>
Operating income	-	<b>(27)</b>
<b>Total:</b>		
Net sales	15,529	<b>20,278</b>
Operating income	1,357	<b>2,207</b>
<b>Elimination:</b>		
Net sales	-	-
Operating income	-	<b>(514)</b>
<b>Consolidated:</b>		
Net sales	15,529	<b>20,278</b>
Operating income	1,357	<b>1,693</b>

## Quarterly sales results of Ceramic Components segment by product division

	JPY million							
	Fiscal 2005				Fiscal 2006			
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q
Circuit Ceramics	1,746	1,566	1,479	1,421	<b>1,649</b>	<b>1,576</b>	<b>1,519</b>	<b>1,601</b>
Machinery Ceramics	1,363	1,376	1,257	1,256	<b>1,129</b>	<b>1,117</b>	<b>1,135</b>	<b>1,063</b>
RF Products*	259	270	302	265	<b>344</b>	<b>364</b>	<b>417</b>	<b>464</b>
EMC Components	808	768	720	673	<b>1,096</b>	<b>1,024</b>	<b>1,075</b>	<b>1,055</b>
Total	4,176	3,980	3,758	3,615	<b>4,218</b>	<b>4,081</b>	<b>4,146</b>	<b>4,183</b>

\*RF=Radio Frequency

	JPY million	
	Fiscal 2005	Fiscal 2006
Circuit Ceramics	6,212	<b>6,345</b>
Machinery Ceramics	5,252	<b>4,444</b>
RF Products	1,096	<b>1,589</b>
EMC Components	2,969	<b>4,250</b>
Total	15,529	<b>16,628</b>

### Circuit Ceramics

Circuit Ceramics include ceramic substrates for chip resistors which are essential for a wide range of electronic appliances, glazed ceramic substrates for thermal printer head (TPH) for FAX or barcode label printers, large ceramic substrates for hybrid ICs, and Aluminum Nitride (AlN) for power modules and automobiles.

This division was reflected by a recovery trend for information communication markets such as mobile phones

and PCs, increasing its sales 2.1% to 6,345 million yen compared to the previous year. As for ceramic substrates for chip resistors, orders decreased in the third quarter in Asian regions, but have recovered since the fourth quarter with a rapid increase of demand for multi-array types.

### **Machinery Ceramics**

Machinery Ceramics include quartz glass products mainly for semiconductor equipment, magnetic head-supporting blocks for PCs, and ceramic facet valves. The products in this division require high precision process techniques.

Total sales for this division were 4,444 million yen, a decrease of 15.4% compared to the previous term due to inactive orders for quartz glass products, a core of this division.

### **Radio Frequency Products**

Radio Frequency Products include device products such as band pass filters for mobile phones and other wireless communication appliances, dielectric ceramics for filters used in mobile communications or antennas, and thin film substrates for optical information and communications.

Total sales of this division increased 45.0% to 1,589 million yen compared to the previous term, being blessed by good demands from communications and digital home device industries.

The sales of device products largely increased due to favorable orders for business wireless communications and base stations. Thin-film products also expanded sales due to solid orders in a DVD-related market.

### **EMC Components**

EMC Components include multi-layer ceramic capacitors of high-voltage/high-capacitance mainly for digital cameras, LCD backlights, and power supply of electronic devices, and components as a countermeasure against noise/surge, including EMI filters, chip varistors, chip beads, and inductors. Such components against noise/surge are expected to be more required in the future for various electronic appliances such as information communication tools including mobile phones and PCs, digital home appliances, amusement equipment, and automotive electronics.

Total sales of EMC Components increased 43.2% to 4,250 million yen compared to the last year due to a recovery trend in the electronic components market and new product lineups added in this term.

Due to sales expansion in Asia, EMI filters gained stable orders for base stations for mobile phones, digital home devices such as thin-screen TVs and DVDs. Also, as for chip varistors, sales increased due to a growing demand in automotive components-related markets.

### **Lighting Equipment**

This segment started since this year as a new business; it posted total sales in this term 3,650 million yen, and operating loss 27 million yen.

This segment includes lighting equipment for public works such as roads and bridges, and sales tend to be largely concentrated in the end of a fiscal term. We successfully reduced the amount of loss due to our various cost reduction efforts such as the review of sales location and the cutting of purchases cost since the beginning of the year, but could not turn to the black.

## II. Outlook for Full Fiscal 2007

	JPY million			
	For year ended	<b>For year ending</b>	Change	
	31st March 2006	<b>31st March 2007</b>	Amount	%
Net sales	20,278	24,530	4,252	21.0%
Operating income	1,693	2,850	1,157	68.3%
Net income	1,135	1,690	555	48.9%
Dividend per share (yen)	21.00	24.00	3.00	

Markets in the fiscal term ended March 2006 were generally solid due to a modest increase of demands in PCs and communication devices including mobile phones, and a favorable demand for digital home appliances such as thin-screen TVs. This market condition is expected to continue in the fiscal 2007 ending March 2007.

Especially, MARUWA is determined to fully focus on the strategic target to acquire and expand the market shares of our electronic components in digital home appliances that are expected further growth, and rapidly-computerized automotive components.

In Circuit Ceramics division, demand expansion is expected in Asian markets. We will promote further expansion of shares in Alumina substrates, preparing for production increase. The sales forecast of this division for the fiscal 2007 is 6,950 million yen, up 9.5% compared to this term.

Machinery Ceramics division has been influenced continuously by a sales decrease in the fiscal 2006, but domestic demands are shifting to recovery. We aim for a recovery in revenue by centralizing and streamlining of the administration department through the merger of MARUWA QUARTZ Co., Ltd. and MARUWA TFG Co., Ltd. in this term, restructuring of manufacturing processes, responding to customized products, and entering overseas markets. Regarding above measures, sales for the fiscal 2007 is forecast to increase 26.7% to 5,630 million yen compared to this term.

Radio Frequency Products division has been on a sales-increasing trend since the latter half of this term. We will focus on expanding markets with the development of new products, and responding to a wide variety of product orders in small quantities, catching the changes of market needs. Therefore, sales in this division are forecast to increase 23.3% to 1,960 million yen in next fiscal term compared to this fiscal term.

In EMC Components division, we expect a revenue increase with a sales expansion in favorable digital home appliances markets both in Japan and in overseas. We are planning to strengthen sales forces in order to acquire more orders for components including ceramic capacitors, EMI filters, or inductors particularly in Asian markets. The sales of this division are expected to increase 40.5% to 5,970 million yen in the fiscal 2007 compared to this fiscal year.

For Lighting Equipment segment, it will be difficult to increase sales due to budget cuts for public works, and price competition; however, we aim for sales expansion by the indirect sales of exterior luminaries which have LED as their light sources. The sales of this segment are expected to be 4,020 million yen, up 10.1% compared to this fiscal year.

Regarding above situation, we forecast net sales 24,530 million yen, up 21.0%, operating income 2,750 million yen, up 62.4%, and net income 1,690 yen, up 48.9% for next fiscal year compared to this fiscal term.

In addition, net income for next fiscal term will cover the loss of 100 million yen on disposal of facilities in reorganizing factories.

\*Cautionary statements: the above forecasts are based on the present business environment and currently-available information, and include forward-looking statements involving risks and uncertainties. The reader is cautioned not to place reliance entirely on the above forecasts for making investment decisions. Due to a number of factors such as future economic situations and market environment changes, actual results may differ significantly from these estimates. Also, please refer to Risks for business operations.

### III. Financial condition

	JPY million				
	As of 31st March 2004	As of 31st March 2005	As of 31st March 2006	Change	
				Amount	%
Total assets	26,664	28,465	<b>33,044</b>	4,579	16.1%
Total liabilities	3,235	4,137	<b>6,487</b>	2,350	56.8%
Total shareholders' equity	23,429	24,328	<b>26,557</b>	2,229	9.2%
Shareholders' equity ratio	87.9%	85.5%	<b>80.4%</b>	-5.1%	
	For year ended 31st March 2004	For year ended 31st March 2005	For year ended 31st March 2006	Change	
				Amount	%
Net cash provided by operating activities	2,102	3,319	<b>2,036</b>	-1,283	-38.7%
Net cash used in investing activities	(708)	(2,062)	<b>(1,234)</b>	828	40.2%
Net cash used in financing activities	(407)	(583)	<b>51</b>	634	108.7%
Cash and cash equivalents at end of term	6,202	6,935	<b>7,899</b>	964	13.9%
Net sales	12,003	15,529	<b>20,278</b>	4,749	30.6%
Capital investment	742	1,253	<b>1,737</b>	484	38.6%
Depreciation	1,466	1,481	<b>1,614</b>	133	9.0%

Total assets at the end of this year were 33,044 million yen, an increase of 4,579 million yen as a result of operating activities in this fiscal year, including an increase of 2,754 million yen due to the acquisition of MARUWA SHOMEI Co., Ltd. ("MARUWA SHOMEI"), a new consolidated subsidiary since this year. Due mainly to the assets of MARUWA SHOMEI, trade notes and accounts receivable increased 2,291 million yen, and inventories increased 315 million yen. Net property, plant and equipment increased 779 million yen.

Total liabilities were 6,487 million yen, an increase of 2,350 million yen also due mainly to the trade and notes payable of MARUWA SHOMEI.

Shareholders' equity increased 2,229 million yen due to net income despite of a decrease by dividend payment.

As for the use of internal reserve, MARUWA aims to invest in the mass production of new products and, to pursue high proactiveness and timely M&A strategies.

As a result, shareholders' equity ratio at the end of this term is 80.4%, down 5.1% compared to the end of the last term.

**Net cash provided from operating activities** was 2,036 million yen, a decrease of 1,283 million yen from the last year. The major factors for the decrease are the decrease of accrued pension and severance costs due to the change of corporate pension by 986 million yen, and an increase of 23 million yen of inventories in comparison with the substantial decrease of inventories in the last term. The positive adjustment of depreciation was 1,614 million yen.

**Net cash used in investing activities** totaled 1,234 million yen, a decrease of 828 million yen compared to the cash used in the previous term. The principal investments in this term were 1,452 million yen of the purchases of net property, plant and equipment, and 9 million yen of the acquisition of the shares of MARUWA SHOMEI

Co., Ltd. As for the acquisition of MARUWA SHOMEI, the actual cash flow was positive 358 million yen since cash assets were acquired together.

**Net cash provided in financing activities** amounted to 51 million yen an increase of 634 million yen compared to the previous term, including 349 million yen of proceeds from sales of own shares upon the exercises of stock options, payments for long-term debt, 147 million yen, and for dividends, 180 million yen.

Consequently, cash and cash equivalents at the end of this year increased 964 million yen to 7,899 million yen compared to the end of the previous year since net cash provided from operating and financing activities were larger than net cash used in investing activities.

Trends of cash-flows indices are as follows;

	JPY million				
	For year ended 31st March 2002	For year ended 31st March 2003	For year ended 31st March 2004	For year ended 31st March 2005	<b>For year ended 31st March 2006</b>
Shareholders' equity ratio	90.7%	87.4%	87.9%	85.5%	<b>80.4%</b>
Shareholders' equity ratio at market value	87.0%	37.1%	62.8%	80.3%	<b>100.8%</b>
Debt redemption period (year)	4.4	0.4	0.3	0.1	<b>0.2</b>
Interest coverage ratio	11.0	124.0	967.7	316.1	<b>251.9</b>

Note)

Shareholders' equity ratio : Shareholders' equity / Total assets

Shareholders' equity ratio at market value : Total market value of shares / Total assets

Debt redemption period : Interest-bearing debts / Cash flows from operating activities

Interest coverage ratio : Cash flows from operating activities / Interest payment

\*Each index is calculated with the consolidated financial figures.

\*Total market value of shares is calculated by multiplying the share value as of the end of the fiscal year by the total number of issued shares after deduction of own shares at the end of the year.

\*For cash flows from operating activities, the figure in the consolidated cash flows statement is used. Interest-bearing debt includes all debts for which interests are paid among the liabilities booked in the consolidated balance sheet. For interest payment, the figure of interest expenses paid booked in the consolidated cash flows statement is used.

## **IV. Risks for business operations**

MARUWA considers following issues as risks which may have influence on operating results, share price, and financial conditions of MARUWA group.

Forward-looking statements contained in this document are due to discussion by MARUWA group as of the date this document was released.

### **1. Reliance on the electronic components market**

Our major customers are electronic components makers which are influenced by the semiconductor market. The semiconductor market has been fluctuating cyclically by the influence of the market's distinctive "silicon cycle" due to market prices and technological innovation progress in addition to general economic influence.

In the past, our operations were impacted by plunge in orders when the electronics and semiconductor markets declined. Even though we expect the electronics market will expand in the medium-term led by smaller sized products with multi-functions and rapidly developing automotive components, our operations may be adversely affected in case that the growth of the electronics market slows down due to influences of general economy or cyclical slump of the semiconductor market.

### **2. Response to technological innovation**

Amid the rapidly changing market requiring quick adjustment and sustainable growth, MARUWA group aims to increase our corporate values by enhancing profitability and growth, promoting product development in new areas with integration of our developed core technologies. For this purpose, we believe it is important to recruit necessary personnel and train employees.

In principle, MARUWA group conducts technological development in response to market needs, and will keep developing new products in the future. In case, however, we fail to catch up with development speed the market requires and to enhance production capacity, our operations may be affected along with the drop of our market shares.

### **3. Product cycle in the electronic components market (risks of inventories at the market)**

In electronics markets, new products are constantly supplied supported by continuous technological innovation. Especially, when demands for new products with non-conventional functions are heightened in a full scale, orders rush temporarily due to competition for components among set makers. However, overestimation for demands among those set makers may cause an excess of inventories supply in the markets and saturation of the markets. In such market environment, our group business operations may be affected.

### **4. Regulations for environmental protection**

Various regulations are applied to us about the usage, storage, destruction and disposal of chemical products used in manufacturing processes. We have never been complaint regarding environmental regulations, and we believe that we comply with currently applicable environmental law and regulations. In case, however, that we are imposed any compensation or fine regarding a delay in response to future tightening of regulations and forced to halt production or terminate businesses, that we are required a large amount of expenditure for equipment or other expenses, and that we are accused of failing to comply with regulations for the usage, control and disposal of hazardous materials, operating results of the group may be impacted.

### **5. Risks on a growth strategy through M&A**

MARUWA group focuses on M&A (merger, acquisition and affiliation of businesses) as a part of our growth strategy. Regarding the cases which we were involved, acquired businesses were improved into revenue sources relatively in a short period with intensive investment in personnel and materials after M&A, following careful preliminary assessment. In the future, we are also planning on expanding business areas and exploring new fields, continuously carrying on M&A. Future M&A, however, may not be linked to the resources of profits unlike our past M&A cases. In case that restructuring at acquired businesses is prolonged or operating costs are mounted, the group's operating results and financial condition may be impacted.

#### 6. Reliance on material suppliers

For ceramics production, we purchase low materials such as alumina from several low material refining companies outside MARUWA group. Although we have ensured supply by appropriately increasing a number of trading suppliers according to materials price trend or our production volume, there is no guarantee that we will never have shortage of materials. The shortage of materials may cause escalating of materials prices, slowdown of supply, or increase of materials costs at our group, consequently affecting operating results and financial condition of the group.

#### 7. Dependence on key persons

The future growth of MARUWA group highly depends on key figures such as competent researchers or engineers since we mainly engage in manufacturing of electronic materials and components in rapid technological innovation. Therefore, it is essential for the management to ensure those core figures and to train them; otherwise, the future growth and operating results of the group may be impacted.

On the other hand, active employment of highly capable or experienced engineers may largely increase recruitment and labor costs, influencing our operating results and financial status.

#### 8. Violations of intellectual property rights of other companies

MARUWA group aggressively promotes the development of new products, and prepare against the risks of violations at research and development with full preliminary research about intellectual property rights held by other companies. If we become an object of a suit for the fact of violations happened beyond our control, the group's business results and financial condition may be influenced.

#### 9. Exchange rate fluctuations

MARUWA group trades in foreign currency including U.S. dollar, Euro or Malaysia ringgit other than in yen. Also, we hold production and sales sites around the world, and some items on consolidated financial statements are converted into yen from originally traded foreign currency. Consequently, at the time of consolidation of financial statements, conversion into yen may affect the results of overseas companies of the group. MARUWA uses foreign exchange forward contracts if necessary to manage exposures resulting from fluctuations in foreign currency exchange, but it is impossible to avoid all the influences of foreign currency exchange. Therefore, our operating results may be affected by the fluctuations of foreign currency exchange.

#### 10. Political and economic situations in Malaysia

Maruwa (Malaysia) Sdn.Bhd., a 100% owned consolidated subsidiary of MARUWA, produces and sells products of Circuit Ceramics and Machinery Ceramics divisions, consisting of 16.0% of total sales for the fiscal year ended in March 2006. Since there are instability factors in Malaysian political situation because of being a multiethnic state, future political conditions and financial instability may influence our operating results in case

that there are difficulty for the Malaysian subsidiary to continue its operations.

#### 11. Dependence on public works

The lighting equipment business largely depends on public projects. It is a trend for public works in Japan to be focused on efficient projects such as for major/core cities, sightseeing cities matched with a national plan for promoting sightseeing, and development of central urban areas fit for an aging society, shifting from conventional pork-barrel projects. Compensating for this change of public works, MARUWA has promoted sales expansion and product development; however, our business results may be affected in case that the proceeding of public project delays due to various factors.

## Consolidated Balance Sheet

	JPY million		Change %	USD thousand
	As of 31st March 2006	As of 31st March 2005		As of 31st March 2006
<b>ASSETS</b>				
<b>Current assets:</b>				
Cash & deposits	7,898	6,935	13.9%	69,638
Notes and accounts receivable, trade	7,003	4,712	48.6%	61,746
Inventories	2,869	2,554	12.3%	25,291
Deferred income taxes	226	388	-41.8%	1,993
Other current assets	609	245	148.6%	5,365
Allowance for doubtful accounts	(17)	(4)	--	(150)
Total current assets	<b>18,588</b>	<b>14,830</b>	<b>25.3%</b>	<b>163,883</b>
<b>Fixed assets:</b>				
<b>(Property, plant &amp; equipment)</b>				
Land	3,412	2,957	15.4%	30,087
Building & structures	3,969	3,703	7.2%	34,992
Machinery & equipments	3,949	3,829	3.1%	34,819
Construction in progress	152	242	-37.2%	1,337
Other	605	577	4.9%	5,335
Net property, plant & equipment	<b>12,087</b>	<b>11,308</b>	<b>6.9%</b>	<b>106,570</b>
<b>(Investment &amp; other assets)</b>				
Investment securities	784	701	11.8%	6,909
Deferred income taxes	152	184	-17.4%	1,341
Property & equipment for investments	960	977	-1.7%	8,463
Other	478	469	1.9%	4,219
Allowance for doubtful accounts	(5)	(4)	--	(47)
Total investments & other assets	<b>2,369</b>	<b>2,327</b>	<b>1.8%</b>	<b>20,885</b>
Total fixed assets	<b>14,456</b>	<b>13,635</b>	<b>6.0%</b>	<b>127,455</b>
Total assets	<b>33,044</b>	<b>28,465</b>	<b>16.1%</b>	<b>291,338</b>

## LIABILITIES AND SHAREHOLDERS' EQUITY

	JPY million		Change %	USD thousand
	As of 31st March 2006	As of 31st March 2005		As of 31st March 2006
<b>Current liabilities:</b>				
Notes & accounts payable, trade	2,590	797	225.0%	22,838
Current portion of long-term debt	147	147	0.0%	1,300
Accrued income taxes	210	65	223.1%	1,852
Accrued bonus	334	195	71.3%	2,946
Stock purchase warrants	--	11	--	--
Equipment notes payable	532	339	56.9%	4,687
Other current liabilities	1,168	857	36.3%	10,292
Total current liabilities	4,981	2,411	106.6%	43,915
<b>Long-term liabilities:</b>				
Long-term debt	187	335	-44.2%	1,653
Accrued pension & severance costs	300	858	-65.0%	2,646
Deferred tax liabilities	62	7	--	549
Consolidation goodwill	579	448	29.2%	5,107
Other	378	78	--	3,323
Total long-term liabilities	1,506	1,726	-12.7%	13,278
Total liabilities	6,487	4,137	56.8%	57,193
<b>Shareholders' equity:</b>				
Common stock, authorized: 26,000,000 shares; issued & outstanding: 11,050,000 shares in 2005, 11,072,000 in 2006	6,710	6,683	0.4%	59,159
Additional paid-in capital	9,747	9,710	0.4%	85,935
Retained earnings	10,522	9,577	9.9%	92,774
Net unrealized gain (loss) on other securities	38	16	137.5%	334
Foreign currency translation adjustment	(206)	(1,077)	--	(1,817)
Treasury stock, at cost	(254)	(581)	--	(2,242)
Total shareholders' equity	26,557	24,328	9.2%	234,143
Total liabilities & shareholders' equity	33,044	28,465	16.1%	291,336

## Consolidated Statements of Income

	JPY million		Change %	USD thousand
	For year ended 31st March 2006	For year ended 31st March 2005		For year ended 31st March 2006
Net sales	<b>20,278</b>	15,529	30.6%	178,788
Cost of sales	<b>14,494</b>	11,187	29.6%	127,795
Gross profit	<b>5,784</b>	4,342	33.2%	50,993
Selling, general & administrative expenses	<b>4,091</b>	2,985	37.1%	36,063
Operating income	<b>1,693</b>	1,357	24.8%	14,930
Other income (expenses):				
Interest & dividend income	<b>35</b>	20	75.0%	305
Interest expenses	<b>(8)</b>	(10)	--	(71)
Foreign exchange gain (loss), net	<b>(158)</b>	19	--	(1,390)
Other, net	<b>107</b>	(206)	--	939
Other income, net	<b>(24)</b>	(177)	--	(217)
Income before income taxes	<b>1,669</b>	1,180	41.4%	14,713
Income taxes:				
Current	<b>299</b>	170	75.9%	2,636
Deferred	<b>235</b>	(215)	--	2,073
	<b>534</b>	(45)	--	4,709
Net income	<b>1,135</b>	1,225	-7.3%	10,004

## Consolidated Statement of Cash Flows

	JPY million		Change %	USD thousand
	For year ended 31st March 2006	For year ended 31st March 2005		For year ended 31st March 2006
<b>Operating activities:</b>				
Income before income taxes	1,669	1,180	41.4%	14,713
Adjustments for:				
Depreciation	1,614	1,481	9.0%	14,232
Amortization of consolidation goodwill	(214)	(156)	-37.2%	(1,883)
Increase (decrease) in allowance for doubtful accounts	7	1	--	58
Increase (decrease) in accrued pension & severance costs	(878)	108	--	(7,738)
Loss (gain) on sales of investment securities	(146)	--	--	(1,289)
Loss on write-down of investment securities	--	3	--	--
Loss on disposal of property, plant & equipment	140	122	14.8%	492
Interest & dividends income	(39)	(22)	-77.3%	(340)
Foreign exchange (gain) loss	159	(29)	--	1,399
(Increase) decrease in notes & accounts receivable	(303)	(331)	8.5%	(2,671)
(Increase) decrease in inventories	(23)	1,089	-102.1%	(204)
Increase (decrease) in accounts payable	(250)	(86)	-190.7%	(2,201)
Other	389	102	--	3,752
Sub total	2,125	3,462	-38.6%	18,320
Interest & dividend income received	38	22	72.7%	335
Interest expenses paid	(8)	(10)	--	(71)
Income taxes paid	(119)	(155)	--	(1,050)
Net cash provided by operating activities	2,036	3,319	-38.7%	17,534
<b>Investment activities:</b>				
Payments for purchase of property, plant & equipment	(1,452)	(1,236)	-17.5%	(12,798)
Proceeds from sales of property, plant & equipment	78	18	--	690
Payments for disposal of property, plant & equipment	(47)	--	--	(414)
Payments for purchase of investment securities	(309)	(59)	--	(2,727)
Proceeds from sales of investment securities	163	1	--	1,435
Payments for purchase of stocks of subsidiaries	--	(774)	--	--
Proceeds from purchase of stocks of subsidiaries	358	--	--	3,157
Payments for purchase of subsidiaries	(23)	--	--	(200)
Increase in intangible fixed assets	(29)	(6)	--	(257)
Other	27	(6)	--	236
Net cash used in investing activities	(1,234)	(2,062)	40.2%	(10,878)

	JPY million		Change %	USD thousand
	For year ended 31st March 2006	For year ended 31st March 2005		For year ended 31st March 2006
<b>Financing activities:</b>				
Payments of long-term debt	(147)	(147)	0.0%	(1,300)
Proceeds from issue of new shares	52	--	--	459
Cash dividends paid	(180)	(157)	-14.6%	(1,584)
Sales of treasury stock	349	1	--	3,081
Purchase of treasury stock	(23)	(280)	91.8%	(202)
Net cash provided by (used in) financing activities	51	(583)	108.7%	454
Effect of exchange rate changes on cash & cash equivalents	111	59	88.1%	975
Net increase (decrease) in cash & cash equivalents	964	733	31.5%	8,499
Cash and cash equivalents at beginning of year	6,935	6,202	11.8%	61,143
Cash and cash equivalents at end of year	7,899	6,935	13.9%	69,642

## Segment Information

### (1) Consolidated business segment information

		JPY million	
		For year ended 2006	For year ended 2005
<b>Ceramic Components:</b>	Net sales	16,628	15,529
	Operating expenses	14,394	13,621
	Operating income	2,234	1,908
	Total assets	31,870	29,355
<b>Lighting Equipment:</b>	Net sales		
	Operating expenses	3,650	-
	Operating income	3,677	-
	Total assets	(27)	-
		2,755	-
<b>Total:</b>	Net sales	20,278	15,529
	Operating expenses	18,071	13,621
	Operating income	2,207	1,908
	Total assets	34,625	29,355
<b>Elimination:</b>	Net sales	-	-
	Operating expenses	514	551
	Operating income	(514)	(551)
	Total assets	(1,581)	(890)
<b>Consolidated:</b>	Net sales	20,278	15,529
	Operating expenses	18,585	14,172
	Operating income	1,693	1,357
	Total assets	33,044	28,465

(2) Consolidated geographic segment information

	JPY million		Change %	USD thousand
	For year ended 31st March 2006	For year ended 31st March 2005		For year ended 31st March 2006
<b>JAPAN</b>				
Net sales:				
Unaffiliated customers	16,170	11,641	38.9%	142,570
Intersegment	830	805	3.1%	7,318
Total	17,000	12,446	36.6%	149,888
Operating cost	15,354	11,132	37.9%	135,376
Operating income (loss)	1,646	1,314	25.3%	14,512
<b>ASIA</b>				
Net sales:				
Unaffiliated customers	3,528	3,384	4.3%	31,110
Intersegment	1,349	1,068	26.3%	11,892
Total	4,877	4,452	9.5%	43,002
Operating cost	4,206	3,725	12.9%	37,082
Operating income (loss)	671	727	-7.7%	5,920
<b>EUROPE and AMERICA</b>				
Net sales:				
Unaffiliated customers	579	503	15.1%	5,108
Intersegment	2	2	0.0%	18
Total	581	505	15.0%	5,126
Operating cost	617	583	5.8%	5,438
Operating income (loss)	(36)	(78)	--	(312)
<b>TOTAL</b>				
Net sales:				
Unaffiliated customers	20,278	15,529	30.6%	178,788
Intersegment	2,181	1,875	16.3%	19,228
Total	22,459	17,404	29.0%	198,016
Operating cost	20,177	15,440	30.7%	177,896
Operating income (loss)	2,282	1,964	16.2%	20,120
<b>ELIMINATION</b>				
Net sales:				
Total	(2,181)	(1,875)	--	19,228
Operating cost	1,592	1,268	25.6%	14,038
Operating income (loss)	(589)	(607)	--	5,190
<b>CONSOLIDATED</b>				
Net sales:				
Total	20,278	15,529	30.6%	178,788
Operating cost	18,585	14,172	31.1%	163,858
Operating income (loss)	1,693	1,357	24.8%	14,930

**(3) Net overseas sales by customer's geographic location**

	JPY million		Change %	USD thousand
	For year ended 31st March 2006	For year ended 31st March 2005		For year ended 31st March 2006
<b>Overseas sales:</b>				
Asia	6,376	5,677	12.3%	56,219
Europe	375	356	5.3%	3,308
Others	495	430	15.1%	4,360
Total	7,246	6,463	12.1%	63,887
Consolidated net sales	20,278	15,529	30.6%	178,788
<b>% of consolidated net sales:</b>				
Asia	31.4%	36.6%		
Europe	1.8%	2.3%		
Others	2.4%	2.8%		
Total	35.7%	41.6%		

\*Countries are divided in geographical vicinity.

\*Main countries included in each are as indicated below;

Asia - Malaysia, Taiwan, Korea, Hong Kong

Europe - Germany, England

Others - United States

\*Overseas sales indicate net sales of the Company and its subsidiaries to customers outside Japan.

END.