ALTECH Co., Ltd. and Consolidated Subsidiaries

Consolidated Financial Statements for the Years Ended November 30, 2006 and 2005, and Independent Auditors' Report

Deloitte.

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors and Shareholders of
ALTECH Co., Ltd.:

We have audited the accompanying consolidated balance sheets of ALTECH Co., Ltd. (the "Company") and consolidated subsidiaries (together, the "Group") as of November 30, 2006 and 2005, and the related consolidated statements of operations, changes in equity, and cash flows for the years then ended, all expressed in Japanese yen. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of ALTECH Co., Ltd. and consolidated subsidiaries as of November 30, 2006 and 2005, and the consolidated results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in Japan.

The accompanying consolidated financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in Note 2 to the consolidated financial statements, the Group recorded ordinary financial losses for the two consecutive fiscal years ended November 30, 2006 and 2005. In addition, the shareholders' equity, as defined in the loan contracts, was ¥4,863,100 thousand ($41,751 thousand) as of November 30, 2006. As a result, the restrictive financial covenants of syndicated loan contracts were violated. This condition raises substantial doubt about its ability to continue as a going concern. Management's plans concerning these matters are also described in Note 2. The consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty.

As discussed in Note 3.g, as of December 1, 2005, the Group adopted the new accounting standard for impairment of fixed assets.

As discussed in Note 13, as of December 1, 2005, the Group changed the reporting of the industry segment information from a single segment, industrial machinery business, to two segments, wholesale business and production business.

As discussed in Note 15, the Company approved issue of common stock by third party allocation at the meeting of the Board of Directors held on January 26, 2007.

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

Deloitte Touche Tohmatsu

February 28, 2007

ALTECH Co., Ltd. and Consolidated Subsidiaries

Consolidated Balance Sheets
November 30, 2006 and 2005

ASSETS	Thousands of Yen 2006	Thousands of Yen 2005	Thousands of U.S. Dollars (Note 1) 2006
CURRENT ASSETS:			
Cash and cash equivalents	¥ 2,789,435	¥ 3,327,150	$ 23,948
Time deposits	86,608	77,471	744
Receivables:			
Trade notes	1,113,498	1,303,330	9,560
Trade accounts	5,971,925	4,569,879	51,270
Unconsolidated subsidiary and associated companies	1,170,702	599,444	10,051
Other	425,027	668,444	3,649
Allowance for doubtful receivables	(47,314)	(23,093)	(406)
Inventories (Note 5)	2,905,751	1,447,398	24,946
Advances paid	543,219	1,156,380	4,663
Deferred tax assets (Note 9)	289,802	123,196	2,488
Prepaid expenses and other current assets	187,966	318,610	1,613
Total current assets	15,436,619	13,568,209	132,526
PROPERTY, PLANT AND EQUIPMENT (Note 7):			
Land	3,741,391	3,887,296	32,120
Buildings and structures	4,985,506	4,105,198	42,801
Machinery and equipment	3,410,636	3,515,421	29,281
Furniture and fixtures	1,127,959	958,746	9,684
Construction in progress	220,504	1,664,575	1,893
Total	13,485,996	14,131,236	115,779
Accumulated depreciation	(2,025,012)	(1,821,176)	(17,385)
Net property, plant and equipment	11,460,984	12,310,060	98,394
INVESTMENTS AND OTHER ASSETS:			
Investment securities (Notes 4 and 7)	1,169,251	1,102,955	10,038
Investments in unconsolidated subsidiary and associated companies	802,243	936,793	6,888
Long-term loans receivable	98,642	145,523	847
Leasehold deposits	83,082	73,025	714
Directors' insurance funds	535,336	717,384	4,596
Deferred tax assets (Note 9)	22,405	381,768	192
Other assets (Note 7)	488,579	564,103	4,195
Allowance for doubtful receivables	(93,925)	(78,279)	(807)
Total investments and other assets	3,105,613	3,843,272	26,663
TOTAL	¥30,003,216	¥29,721,541	$257,583

LIABILITIES AND EQUITY	Thousands of Yen 2006	Thousands of Yen 2005	Thousands of U.S. Dollars (Note 1) 2006
CURRENT LIABILITIES:			
Short-term bank loans (Note 7)	¥ 2,226,282	¥ 1,692,550	$ 19,113
Current portion of long-term debt (Note 7)	3,005,701	2,093,040	25,804
Payables:			
Trade notes	2,299,765	1,372,778	19,744
Trade accounts	5,444,769	3,593,832	46,744
Unconsolidated subsidiary and associated companies	287,495	36,570	2,468
Other	618,083	996,146	5,306
Advances received	1,676,318	1,892,168	14,392
Income taxes payable	129,879	79,488	1,115
Accrued expenses	853,335	796,412	7,326
Other current liabilities	357,314	647,299	3,068
Total current liabilities	16,898,941	13,200,283	145,080
LONG-TERM LIABILITIES:			
Long-term debt (Note 7)	8,087,941	8,605,806	69,436
Other long-term liabilities (Note 9)	68,960	75,297	593
Total long-term liabilities	8,156,901	8,681,103	70,029
MINORITY INTERESTS		62,884	
CONTINGENT LIABILITIES (Note 12)			
EQUITY (Note 8):			
Common stock—authorized, 40,000 thousand shares; issued, 10,556 thousand shares	4,023,423	4,023,423	34,542
Capital surplus	4,563,089	4,563,089	39,175
Accumulated deficit	(4,022,172)	(556,399)	(34,531)
Net unrealized gain on available-for-sale securities	31,980	64,694	275
Deferred loss on derivatives under hedge accounting	(12,596)		(109)
Foreign currency translation adjustments	489,157	(95,443)	4,199
Treasury stock—at cost, 261 thousand shares	(222,377)	(222,093)	(1,909)
Total	4,850,504	7,777,271	41,642
Minority interests	96,870		832
Total equity	4,947,374	7,777,271	42,474
TOTAL	¥30,003,216	¥29,721,541	$257,583

See notes to consolidated financial statements.

ALTECH Co., Ltd. and Consolidated Subsidiaries

Consolidated Statements of Operations
Years Ended November 30, 2006 and 2005

	Thousands of Yen		Thousands of U.S. Dollars (Note 1)
	2006	2005	2006
NET SALES (Note 14)	¥36,560,918	¥32,671,370	$313,882
COST OF SALES (Note 14)	33,364,220	29,286,114	286,438
Gross profit	3,196,698	3,385,256	27,444
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES (Note 10)	4,197,453	3,897,879	36,036
Operating loss	(1,000,755)	(512,623)	(8,592)
OTHER INCOME (EXPENSES):			
Interest and dividends income	56,897	58,234	488
Interest expense	(335,853)	(233,093)	(2,883)
Equity in earnings of associated companies	30,371	5,000	261
Gain (loss) on derivatives	111,857	(485,329)	960
Foreign exchange (loss) gain	(292,301)	447,201	(2,509)
Gain on sale of investment securities		116,340	
Loss on impairment of long-lived assets (Note 6)	(1,803,440)		(15,483)
Gain on cancellation of insurance	250,548		2,151
Other—net	37,043	69,263	318
Other expenses—net	(1,944,878)	(22,384)	(16,697)
LOSS BEFORE INCOME TAXES AND MINORITY INTERESTS	(2,945,633)	(535,007)	(25,289)
INCOME TAXES (Note 9):			
Current	163,939	117,348	1,408
Deferred	205,235	102,029	1,762
Total income taxes	369,174	219,377	3,170
MINORITY INTERESTS IN NET INCOME	27,417	12,773	235
NET LOSS	¥ (3,342,224)	¥ (767,157)	$ (28,694)
	Yen		U.S. Dollars
PER SHARE OF COMMON STOCK (Note 3.o):			
Net loss	¥(324.63)	¥(76.46)	$(2.79)
Cash dividends applicable to the year	12.00	12.00	0.10

See notes to consolidated financial statements.

ALTECH Co., Ltd. and Consolidated Subsidiaries

Consolidated Statements of Changes in Equity
Years Ended November 30, 2006 and 2005

	Thousands	Thousands of Yen									
	Outstanding Number of Shares of Common Stock	Common Stock	Capital Surplus	Retained Earnings (Accumulated Deficit)	Net Unrealized Gain (Loss) on Available-for-sale Securities	Deferred Loss on Derivatives under Hedge Accounting	Foreign Currency Translation Adjustments	Treasury Stock	Total	Minority Interests	Total Equity
BALANCE, DECEMBER 1, 2004	10,024	¥3,914,287	¥4,454,225	¥ 365,350	¥(31,612)		¥ 28,500	¥(220,929)	¥8,509,821		¥8,509,821
Net loss				(767,157)					(767,157)		(767,157)
Conversion of convertible bonds	272	109,136	108,864						218,000		218,000
Cash dividends, ¥12 per share				(120,292)					(120,292)		(120,292)
Bonuses to directors and corporate auditors				(34,300)					(34,300)		(34,300)
Purchase of treasury stock	(1)							(1,164)	(1,164)		(1,164)
Net increase in unrealized gain on available-for-sale securities					96,306				96,306		96,306
Net change in foreign currency translation adjustments							(123,943)		(123,943)		(123,943)
BALANCE, NOVEMBER 30, 2005	10,295	4,023,423	4,563,089	(556,399)	64,694		(95,443)	(222,093)	7,777,271		7,777,271
Reclassified balance as of November 30, 2005 (Note 3.m)										¥62,884	62,884
Net loss				(3,342,224)					(3,342,224)		(3,342,224)
Cash dividends, ¥12 per share				(123,549)					(123,549)		(123,549)
Purchase of treasury stock								(284)	(284)		(284)
Net change in the period					(32,714)	¥(12,596)	584,600		539,290	33,986	573,276
BALANCE, NOVEMBER 30, 2006	10,295	¥4,023,423	¥4,563,089	¥(4,022,172)	¥ 31,980	¥(12,596)	¥489,157	¥(222,377)	¥4,850,504	¥96,870	¥4,947,374

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ALTECH Co., Ltd. and Consolidated Subsidiaries

Consolidated Statements of Changes in Equity
Years Ended November 30, 2006 and 2005

	Thousands of U.S. Dollars (Note 1)									
	Common Stock	Capital Surplus	Accumulated Deficit	Net Unrealized Gain on Available-for-sale Securities	Deferred Loss on Derivatives under Hedge Accounting	Foreign Currency Translation Adjustments	Treasury Stock	Total	Minority Interests	Total Equity
BALANCE, NOVEMBER 30, 2005	$34,542	$39,175	$ (4,777)	$555		$ (819)	$(1,907)	$66,769		$66,769
Reclassified balance as of November 30, 2005 (Note 3.m)									$540	540
Net loss			(28,694)					(28,694)		(28,694)
Cash dividends, $0.10 per share			(1,060)					(1,060)		(1,060)
Purchase of treasury stock							(2)	(2)		(2)
Net change in the period				(280)	$(109)	5,018		4,629	292	4,921
BALANCE, NOVEMBER 30, 2006	$34,542	$39,175	$(34,531)	$275	$(109)	$4,199	$(1,909)	$41,642	$832	$42,474

See notes to consolidated financial statements.

(Concluded)

ALTECH Co., Ltd. and Consolidated Subsidiaries

Consolidated Statements of Cash Flows
Years Ended November 30, 2006 and 2005

	Thousands of Yen		Thousands of U.S. Dollars (Note 1)
	2006	2005	2006
OPERATING ACTIVITIES:			
Loss before income taxes and minority interests	¥(2,945,633)	¥ (535,007)	$(25,289)
Adjustments for:			
Income taxes—paid	(196,714)	(754,157)	(1,688)
Income taxes—refunded	273,770	5,725	2,350
Depreciation and amortization	785,473	540,753	6,743
Loss on impairment of long-lived assets	1,803,440		15,483
Bonuses to directors and corporate auditors		(34,300)	
Equity in earnings of associated companies	(30,371)	(5,000)	(261)
Changes in assets and liabilities:			
(Increase) decrease in receivables	(1,771,745)	670,022	(15,211)
Increase in inventories	(1,438,258)	(161,041)	(12,348)
Decrease (increase) in advances paid	617,344	(195,297)	5,300
Increase (decrease) in payables	2,727,360	(613,804)	23,415
Increase in advances received	57,817	888,888	496
Increase in accrued expenses	61,292	132,530	526
Other—net	(330,687)	201,969	(2,838)
Total adjustments	2,558,721	676,288	21,967
Net cash (used in) provided by operating activities	(386,912)	141,281	(3,322)
INVESTING ACTIVITIES:			
Purchases of property, plant and equipment	(1,268,054)	(3,433,386)	(10,886)
Proceeds from sales of property, plant and equipment		980	
Purchases of investment securities	(146,871)	(108,485)	(1,261)
Proceeds from sales of investment securities		319,171	
Purchases of investments in associated companies	(30,600)	(444,705)	(263)
Proceeds from sales of investments in associated companies	223,150	105,000	1,916
Decrease in long-term deposits, except cash equivalents	102,506		880
Increase in long-term deposits, except cash equivalents	(19,885)	(161,131)	(171)
Collection of long-term loans receivable	446,268	1,106,135	3,831
Additions to long-term loans receivable	(373,000)	(824,245)	(3,202)
Other—net	70,527	18,662	606
Net cash used in investing activities	(995,959)	(3,422,004)	(8,550)
FORWARD	¥(1,382,871)	¥(3,280,723)	$(11,872)

(Continued)

ALTECH Co., Ltd. and Consolidated Subsidiaries

Consolidated Statements of Cash Flows
Years Ended November 30, 2006 and 2005

	Thousands of Yen		Thousands of U.S. Dollars (Note 1)
	2006	2005	2006
FORWARD	¥(1,382,871)	¥(3,280,723)	$(11,872)
FINANCING ACTIVITIES:			
Increase (decrease) in short-term bank loans—net	548,523	(140,604)	4,709
Proceeds from long-term debt	2,682,337	5,580,211	23,028
Repayments of long-term debt	(2,334,041)	(1,994,712)	(20,038)
Dividends paid	(123,223)	(121,316)	(1,058)
Dividends paid to minority shareholders	(1,350)		(12)
Other—net	(9,113)	(2,104)	(77)
Net cash provided by financing activities	763,133	3,321,475	6,552
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(619,738)	40,752	(5,320)
FOREIGN CURRENCY TRANSLATION ADJUSTMENTS ON CASH AND CASH EQUIVALENTS	82,023	35,745	704
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	3,327,150	3,250,653	28,564
CASH AND CASH EQUIVALENTS, END OF YEAR	¥ 2,789,435	¥ 3,327,150	$ 23,948
NON-CASH FINANCING ACTIVITIES:			
Conversion of convertible bonds:			
Increase in common stock		¥ 109,136	
Increase in capital surplus		108,864	
Decrease in convertible bonds		¥ 218,000	

See notes to consolidated financial statements.

(Concluded)

1. BASIS OF PRESENTING CONSOLIDATED FINANCIAL STATEMENTS

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

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

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

The consolidated financial statements are stated in Japanese yen, the currency of the country in which ALTECH Co., Ltd. (the "Company") is incorporated and operates. The translations of Japanese yen amounts into U.S. dollar amounts are included solely for the convenience of readers outside Japan and have been made at the rate of ¥116.48 to $1, the approximate rate of exchange at November 30, 2006. Such translations should not be construed as representations that the Japanese yen amounts could be converted into U.S. dollars at that or any other rate.

2. GOING CONCERN

The Company and consolidated subsidiaries recorded ordinary financial losses for the two consecutive fiscal years ended November 30, 2006 and 2005. In addition, the shareholders' equity, as defined in the loan contracts, was ¥4,863,100 thousand ($41,751 thousand) as of November 30, 2006. As a result, the restrictive financial covenants of the syndicated loan contracts regarding the borrowings of ¥5,374,523 thousand ($46,141 thousand) payable by the Company and a consolidated subsidiary, Altech New Materials (Guangzhou) Co., Ltd., and the borrowings of ¥740,000 thousand ($6,353 thousand) payable by an associated company, Altech New Materials (Shenzhen) Co., Ltd., and guaranteed by the Company were violated.

Participating banks of these syndicated loans might demand repayment before maturity date, and the Company is concerned about its adverse effect on cash flows. This condition raises substantial doubt about its ability to continue as a going concern.

To prevent this from happening, the Company formulated a drastic restructuring plan and requested the participating banks not to demand repayment before maturity date.

As a result, the Company obtained waivers from each participating bank as of January 29 and 30, 2007.

In addition, in order to eliminate concerns about future cash flows, as well as not to violate the restrictive financial covenants, the Company, based on the approval of the meeting of the Board of Directors held on January 26, 2007, entered into an underwriting agreement with Phoenix Capital Co., Ltd., with Phoenix Capital Partners III Capital Investment Partnership (a partnership established pursuant to the Civil Code of Japan) acting as the underwriter of new stock to be issued (¥3,000,015 thousand ($25,756 thousand)). The Company plans to issue common stock by third party allocation on March 1, 2007.

The consolidated financial statements have been prepared assuming that the Company will continue as a going concern.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a. ***Consolidation—***The consolidated financial statements as of November 30, 2006 include the accounts of the Company and its 16 significant (14 in 2005) subsidiaries (together, the "Group").

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

Investments in 4 (3 in 2005) associated companies are accounted for by the equity method. Investment in the remaining 1 (2 in 2005) unconsolidated subsidiary is stated at cost. If the equity method of accounting had been applied to the investments in these companies, the effect on the accompanying consolidated financial statements would not be material.

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

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

c. ***Investment Securities—***Marketable available-for-sale securities, which are not classified as either trading securities or held-to-maturity debt securities, are reported at fair value, with unrealized gains and losses, net of applicable taxes, reported in a separate component of equity.

Non-marketable available-for-sale securities are stated at cost determined by the moving-average method.

For other than temporary declines in fair value, investment securities are reduced to net realizable value by a charge to income.

d. ***Allowance for Doubtful Receivables—***The allowance for doubtful receivables is stated in amounts considered to be appropriate based on the Group's past credit loss experience and an evaluation of potential losses in the receivables outstanding.

e. ***Inventories***—Inventories of consolidated subsidiaries, except Chinese consolidated subsidiaries, are stated at cost determined by the specific identification method. Inventories of Chinese consolidated subsidiaries are stated at the lower of cost, determined by the moving-average method, or market.

f. ***Property, Plant and Equipment***—Property, plant and equipment are stated at cost. Depreciation of the Company and its consolidated subsidiaries, except Chinese consolidated subsidiaries, is computed by the declining-balance method, while the straight-line method is applied to the buildings acquired after April 1, 1998, at rates based on the estimated useful lives of the assets. The range of useful lives is principally from 3 to 50 years for buildings and structures, and from 2 to 15 years for machinery and equipment. Depreciation of Chinese consolidated subsidiaries is computed by the straight-line method. The range of useful lives is principally from 5 to 20 years for buildings and structures, and from 5 to 10 years for machinery and equipment.

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

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

The Group reviews its long-lived assets for impairment whenever events or changes in circumstance indicate the carrying amount of an asset or asset group may not be recoverable. An impairment loss would be recognized if the carrying amount of an asset or asset group exceeds the sum of the undiscounted future cash flows expected to result from the continued use and eventual disposition of the asset or asset group. The impairment loss would be measured as the amount by which the carrying amount of the asset exceeds its recoverable amount, which is the higher of the discounted cash flows from the continued use and eventual disposition of the asset or the net selling price at disposition.

The effect of adoption of the new accounting standard for impairment of fixed assets was to increase loss before income taxes and minority interests for the year ended November 30, 2006 by ¥1,803,440 thousand ($15,483 thousand).

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

The Group files a tax return under the consolidated corporate-tax system from the fiscal year ended November 30, 2005, which allows companies to base tax payments on the combined profits or losses of the parent company and its wholly owned domestic subsidiaries.

i. ***Foreign Currency Transactions***—All short-term and long-term monetary receivables and payables denominated in foreign currencies are translated into Japanese yen at the exchange rates at the balance sheet date. The foreign exchange gains and losses from translation are recognized in the consolidated statements of operations to the extent that they are not hedged by forward exchange contracts.

j. ***Foreign Currency Financial Statements***—The balance sheet accounts of the consolidated foreign subsidiaries are translated into Japanese yen at the current exchange rate as of the balance sheet date except for equity, which is translated at the historical rate.

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

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

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

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

Foreign currency forward contracts are utilized to hedge foreign currency exposures in export sales, in purchase of goods from overseas suppliers and in foreign currency investments in associated companies. Trade receivables and trade payables denominated in foreign currencies are translated at the contracted rates if the forward contracts qualify for hedge accounting.

Forward contracts utilized for forecasted (or committed) transactions are also measured at their fair values, but the unrealized gains/losses are deferred until the underlying transactions are completed.

Currency swaps are utilized to hedge foreign currency exposures of long-term loans receivable. These swaps are measured at fair value and the unrealized gains/losses are recognized in the consolidated statements of operations.

Interest rate swaps are utilized to hedge interest rate exposures of short-term bank loans and long-term debt. Swaps which qualify for hedge accounting are measured at market value at the balance sheet date, and the unrealized gains or losses are deferred until maturity as other liability or asset. Additionally, swaps which qualify for hedge accounting and meet specific matching criteria are not remeasured at market value but the differential paid or received under the swap agreements are recognized and included in interest expense or income.

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

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

n. ***Appropriations of Retained Earnings***—Appropriations of retained earnings at each year end are reflected in the financial statements for the following year upon shareholders' approval.

o. ***Per Share Information***—Basic net loss per share is computed by dividing net loss available to common shareholders by the weighted-average number of common shares outstanding for the period.

Diluted net income per share is not disclosed because of the Company's net loss position.

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

4. INVESTMENT SECURITIES

Investment securities as of November 30, 2006 and 2005, consisted of the following:

	Thousands of Yen		Thousands of U.S. Dollars
	2006	2005	2006
Non-current:			
Marketable equity securities	¥ 365,751	¥ 310,011	$ 3,140
Government bonds	10,233	10,448	88
Other	793,267	782,496	6,810
Total	¥1,169,251	¥1,102,955	$10,038

The carrying amounts and aggregate fair values of investment securities at November 30, 2006 and 2005, were as follows:

	Thousands of Yen			
November 30, 2006	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Securities classified as available-for-sale:				
Equity securities	¥362,593	¥35,627	¥(32,469)	¥365,751
Debt securities	10,000	233		10,233
November 30, 2005				
Securities classified as available-for-sale:				
Equity securities	304,087	33,494	(27,570)	310,011
Debt securities	10,000	448		10,448

November 30, 2006	Thousands of U.S. Dollars Cost	Unrealized Gains	Unrealized Losses	Fair Value
Securities classified as available-for-sale:				
Equity securities	$3,113	$306	$(279)	$3,140
Debt securities	86	2		88

Available-for-sale securities whose fair value is not readily determinable as of November 30, 2006 and 2005, were as follows:

	Carrying Amount		
	Thousands of Yen		Thousands of U.S. Dollars
	2006	2005	2006
Available-for-sale:			
Equity securities	¥760,146	¥693,400	$6,526
Other investments securities	33,121	89,096	284
Total	¥793,267	¥782,496	$6,810

Proceeds from sales of available-for-sale securities for the years ended November 30, 2006 and 2005, were nil and ¥319,171 thousand, respectively. Gross realized gains on these sales, computed on the moving average cost basis, were nil and ¥116,340 thousand for the years ended November 30, 2006 and 2005, respectively. Gross realized losses on these sales, computed on the moving average cost basis, were nil and ¥10,727 thousand for the years ended November 30, 2006 and 2005, respectively.

The carrying values of debt securities by contractual maturities for securities classified as available-for-sale at November 30, 2006, are as follows:

	Thousands of Yen	Thousands of U.S. Dollars
	Available for Sale	Available for Sale
Due after one year through five years	¥10,233	$88

5. INVENTORIES

Inventories at November 30, 2006 and 2005, consisted of the following:

	Thousands of Yen		Thousands of U.S. Dollars
	2006	2005	2006
Merchandise	¥2,357,292	¥1,118,065	$20,238
Finished products	315,281	238,145	2,706
Work in process		8,326	
Raw materials and supplies	233,178	82,862	2,002
Total	¥2,905,751	¥1,447,398	$24,946

6. LONG-LIVED ASSETS

The Group reviewed its long-lived assets for impairment for the year ended November 30, 2006 and, as a result, recognized an impairment loss of ¥1,803,440 thousand ($15,483 thousand). The details of impairment are as follows:

Location	Usage	Classification	Thousands of Yen	Thousands of U.S. Dollars
Suzhou City, China (The first Plant)	Manufacturing facilities	Buildings and structures, machinery and equipment, construction in progress, etc.	¥ 971,046	$ 8,337
Suzhou City, China (The second Plant)	Manufacturing facilities	Construction in progress	127,349	1,093
Guangzhou City, China	Manufacturing facilities	Buildings and structures, machinery and equipment, etc.	436,349	3,746
Kasugai City, Aichi Prefecture	Exhibition space and warehouse	Land, buildings and structures, etc.	221,423	1,901
Ishikari-gun, Hokkaido	Welfare facilities	Land, buildings and structures, etc.	45,137	388
Hayami City, Oita Prefecture	Idle properties	Land	2,136	18
Total			¥1,803,440	$15,483

The asset group of manufacturing facilities in Suzhou City, China (The first Plant) and Guangzhou City, China was written down to a recoverable amount and the amount written down was recognized as impairment loss. The recoverable amount was measured at its value in use and the discount rate used for computation of present value of future cash flows was 12.3% or 9.7%.

The asset group of manufacturing facilities (construction in progress) in Suzhou City, China (The second Plant) was written down to a recoverable amount and the amount written down was recognized as impairment loss. The recoverable amount was measured by net selling price, which was ¥0 thousand.

The asset group of exhibition space and warehouse in Kasugai City, Aichi Prefecture, and welfare facilities in Ishikari-gun, Hokkaido, was written down to a recoverable amount and the amount written down was recognized as impairment loss. The recoverable amount was measured by net selling price based on real estate appraised value.

Idle land of Hayami City, Oita Prefecture, was written down to a recoverable amount of ¥0 thousand and the amount written down was recognized as impairment loss.

Impairment loss on long-lived assets at November 30, 2006 consisted of the following:

	Thousands of Yen	Thousands of U.S. Dollars
Land	¥ 182,076	$ 1,563
Buildings and structures	327,558	2,812
Machinery and equipment	929,790	7,982
Furniture and fixtures	175,365	1,506
Construction in progress	188,651	1,620
Total	¥1,803,440	$15,483

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

Short-term bank loans at November 30, 2006 and 2005, consisted of notes to banks, loan on deed and bank overdrafts. The annual interest rates applicable to the short-term bank loans ranged from 1.110% to 5.900% and from 0.570% to 4.770% at November 30, 2006 and 2005, respectively.

Long-term debt at November 30, 2006 and 2005, consisted of the following:

	Thousands of Yen		Thousands of U.S. Dollars
	2006	2005	2006
Unsecured 0.50% yen straight bonds, due 2008	¥ 100,000	¥ 100,000	$ 858
Unsecured zero coupon convertible bonds with stock acquisition rights, convertible into common stock at ¥640 per share, due 2009	1,782,000	1,782,000	15,299
Loans from banks and other financial institutions, due serially to 2012 with interest rates ranging from 1.30% to 6.25% (1.30% to 6.12% in 2005):			
Collateralized	2,887,909	2,948,933	24,793
Unsecured	6,323,733	5,867,913	54,290
Total	11,093,642	10,698,846	95,240
Less current portion	(3,005,701)	(2,093,040)	(25,804)
Long-term debt, less current portion	¥ 8,087,941	¥ 8,605,806	$69,436

Annual maturities of long-term debt at November 30, 2006, were as follows:

Year Ending November 30	Thousands of Yen	Thousands of U.S. Dollars
2007	¥ 3,005,701	$25,804
2008	2,295,756	19,709
2009	3,336,577	28,645
2010	1,257,711	10,798
2011	1,029,052	8,835
2012 and thereafter	168,845	1,449
Total	¥11,093,642	$95,240

The unsecured zero coupon convertible bonds were issued with share warrants. The price at which the shares shall be issued upon exercise of the share warrants (the "Conversion Price") was ¥640 ($5.49) per share. The share warrants outstanding at November 30, 2006 entitled the holders to subscribe for 2,784 thousand shares which were computed using the above-mentioned exercise price.

a. Adjustment of Conversion Price

If the Company shall issue shares or dispose treasury stocks at a price less than the current market price, the Conversion Price shall be adjusted in accordance with the following formula:

$$\begin{array}{c}\text{The}\\ \text{Conversion}\\ \text{Price after}\\ \text{such}\\ \text{adjustment}\end{array} = \begin{array}{c}\text{The}\\ \text{Conversion}\\ \text{Price before}\\ \text{such}\\ \text{adjustment}\end{array} \times \frac{\begin{array}{c}\text{The number of}\\ \text{shares outstanding}\\ \text{as of year end}\end{array} + \dfrac{\begin{array}{c}\text{The number}\\ \text{of new shares}\\ \text{issued or treasury}\\ \text{stocks disposed}\end{array} \times \begin{array}{c}\text{The price of}\\ \text{new issue or}\\ \text{disposition}\\ \text{per share}\end{array}}{\text{Current market price}}}{\begin{array}{c}\text{The number of}\\ \text{shares outstanding}\\ \text{as of year end}\end{array} + \begin{array}{c}\text{The number of}\\ \text{new shares issued or}\\ \text{treasury stocks disposed}\end{array}}$$

(excluding treasury stocks from "The number of shares outstanding as of year end")

Moreover the Conversion Price shall be adjusted in the event of stock split, reverse stock split, share warrant issued enabling holders to purchase shares at a price less than the current market price, distributions to shareholders of certain properties, cash and shares, or any other events prescribed in a memorandum of convertible bonds with share warrant. However the Conversion Price shall not be adjusted in the event of stock options granted in accordance with the stock option plan of the Company, or any other certain events prescribed in the memorandum.

b. The Conversion Price, in accordance with "a. Adjustment of Conversion Price," shall be adjusted (the effect date: March 2, 2007) by the issue of common stock by third party allocation (the due date of payment: March 1, 2007) approved at the meeting of the Board of Directors held on January 26, 2007. The adjusted Conversion Price shall be ¥606.8 ($5.21) per share.

The carrying amounts of assets pledged as collateral for short-term bank loans of ¥1,200,000 thousand ($10,302 thousand) and the above collateralized long-term debt at November 30, 2006, were as follows:

	Thousands of Yen	Thousands of U.S. Dollars
Property, plant and equipment—net of accumulated depreciation	¥5,490,755	$47,139
Investment securities	45,420	390
Long-term deposits	200,000	1,717
Total	¥5,736,175	$49,246

Restrictive Financial Covenants

(1) Syndicated loan contracts to the Company (arranger: The Bank of Tokyo-Mitsubishi UFJ, Ltd., agreement date: July 28, 2003, balance as of November 30, 2006: ¥1,290,000 thousand ($11,075 thousand)) have restrictive financial covenants attached. In the event that any of the following covenants are violated, the borrower may lose the benefit due by the end of the term for all the liabilities under contract.

   a. Shareholders' equity, as defined in the loan contracts ("former consolidated shareholders' equity"), reported in the consolidated balance sheets as of the balance sheet date (not the closing date of the interim term) of each fiscal year must be at least 75% of the higher of: former consolidated shareholders' equity in the immediately preceding fiscal year, or former consolidated shareholders' equity as of November 30, 2002.

   b. Ordinary financial loss in the consolidated statements of income for each fiscal year (not the interim term) must not be recorded for three consecutive fiscal years.

   c. The total amount of loan and investment in the non-consolidated balance sheet of the Company to the consolidated subsidiary, Altech New Materials (Suzhou) Co., Ltd., must be higher than the amount of this syndicated loan.

   In addition, the contracts impose certain restrictions on encumbrances, disposals and changes in ownership.

(2) Syndicated loan contracts to the Company (arranger: The Bank of Tokyo-Mitsubishi UFJ, Ltd., agreement date: December 15, 2004, balance as of November 30, 2006: ¥1,617,000 thousand ($13,882 thousand)) have financial restriction articles attached. In the event that any of the following articles are violated, the borrower may lose the benefit due by the end of the term for all the liabilities under contract.

   a. Former shareholders' equity reported in the consolidated balance sheets as of the balance sheet date (not the closing date of the interim term) of each fiscal year must be at least 75% of the higher of: former consolidated shareholders' equity in the immediately preceding fiscal year, or former consolidated shareholders' equity as of November 30, 2003.

   b. Ordinary financial loss in the consolidated statements of income for each fiscal year (not the interim term) must not be recorded for three consecutive fiscal years.

   In addition, the contracts impose certain restrictions on encumbrances, disposals and changes in ownership.

(3) Syndicated loan contracts to the Company (arranger: Mizuho Bank, Ltd., agreement date: September 30, 2005, balance as of November 30, 2006: ¥727,273 thousand ($6,244 thousand)) have financial restriction articles attached. In the event that any of the following articles are violated, the borrower may lose the benefit due by the end of the term for all the liabilities under contract.

   a. Former shareholders' equity reported in the consolidated balance sheets as of the balance sheet date (not the closing date of the interim term) of each fiscal year must be at least 75% of the higher of: former consolidated shareholders' equity in the immediately preceding fiscal year, or former consolidated shareholders' equity as of November 30, 2004.

   b. Ordinary financial loss in the consolidated statements of income for each fiscal year (not the interim term) must not be recorded for three consecutive fiscal years.

c. Ordinary financial loss in the non-consolidated statements of income of the associated company, Altech New Materials (Shenzhen) Co., Ltd., for each fiscal year (not the interim term) must not be recorded for two consecutive fiscal years.

In addition, the contracts impose certain restrictions on encumbrances, disposals and changes in ownership.

(4) Syndicated loan contracts to the consolidated subsidiary, Altech New Materials (Guangzhou) Co., Ltd. (arranger: The Bank of Tokyo-Mitsubishi UFJ, Ltd., agreement date: December 28, 2004, balance as of November 30, 2006: ¥1,701,477 thousand ($14,607 thousand)) have financial restriction articles attached. In the event that any of the following articles are violated, the borrower may lose the benefit due by the end of the term for all the liabilities under contract.

a. Former shareholders' equity reported in the consolidated balance sheets as of the balance sheet date (not the closing date of the interim term) of each fiscal year must be at least 75% of the higher of: former consolidated shareholders' equity in the immediately preceding fiscal year, or former consolidated shareholders' equity as of November 30, 2003.

b. Ordinary financial loss in the consolidated statements of income for each fiscal year (not the interim term) must not be recorded for three consecutive fiscal years.

In addition, the contracts impose certain restrictions on encumbrances, disposals and changes in ownership.

8. EQUITY

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

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

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

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

In addition to the provision that requires an appropriation for a legal reserve in connection with the cash outlays, the Code also imposes certain limitations on the amount of capital surplus and retained earnings available for dividends.

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

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

a. Dividends

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

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

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

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

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

c. Treasury Stock and Treasury Stock Acquisition Rights

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

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

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

9. INCOME TAXES

The Company and its domestic subsidiaries are subject to Japanese national and local income taxes which, in the aggregate, resulted in a normal effective statutory tax rate of approximately 40.7% for the years ended November 30, 2006 and 2005.

The tax effects of significant temporary differences and loss carryforwards which resulted in deferred tax assets and liabilities at November 30, 2006 and 2005, are as follows:

	Thousands of Yen		Thousands of U.S. Dollars
	2006	2005	2006
Current:			
Deferred tax assets:			
Accrued enterprise tax	¥ 27,951	¥ 20,761	$ 240
Accrued expenses	206,122	23,740	1,770
Allowance for doubtful receivables	19,693	10,648	169
Tax loss carryforwards	76,152	24,230	654
Other	75,882	60,765	651
Less valuation allowance	(109,709)	(8,450)	(942)
Total	296,091	131,694	2,542
Deferred tax liabilities:			
Enterprise tax receivable	3,886	8,172	33
Dividends receivable	485	326	4
Other	1,918		17
Total	6,289	8,498	54
Net deferred tax assets—current	¥289,802	¥123,196	$2,488

	Thousands of Yen		Thousands of U.S. Dollars
	2006	2005	2006
Non-current:			
Deferred tax assets:			
Land	¥ 74,087		$ 636
Buildings and structures	93,022		799
Machinery and equipment	222,045		1,906
Construction in progress	50,936		437
Unrealized gain on associated companies' machinery	35,054	¥ 93,752	301
Subsidiaries' stock	64,681	64,681	556
Tax loss carryforwards	909,952	734,679	7,812
Other investments assets	38,230	30,424	328
Other	73,289	28,230	629
Less valuation allowance	(1,517,621)	(532,781)	(13,029)
Total	43,675	418,985	375
Offset with deferred tax liabilities	(21,270)	(37,217)	(183)
Net deferred tax assets—non-current	¥ 22,405	¥381,768	$ 192
Deferred tax liabilities:			
Net unrealized loss on available-for-sale securities	¥ 22,887	¥ 45,697	$ 197
Other	174		1
Total	23,061	45,697	198
Offset with deferred tax assets	(21,270)	(37,217)	(183)
Net deferred tax liabilities—non-current	¥ 1,791	¥ 8,480	$ 15

A reconciliation between the normal effective statutory tax rate for the years ended November 30, 2006 and 2005, and the actual effective tax rate reflected in the accompanying consolidated statements of operations is as follows:

	2006	2005
Normal effective statutory tax rate	(40.7)%	(40.7)%
Expenses not deductible for income tax purposes	1.6	5.1
Per capita levy of local taxes	0.4	1.9
Lower income tax rates applicable to income in certain foreign countries	15.4	21.5
Valuation allowance	39.5	38.3
Tax benefits not recognized on unrealized (loss) gain	(2.4)	13.0
Equity in earnings of associated companies	(0.4)	(0.4)
Other—net	(0.9)	2.3
Actual effective tax rate	12.5 %	41.0 %

10. LEASES

The Group leases certain machinery, computer equipment, office space and other assets.

Total rental expenses for the years ended November 30, 2006 and 2005, were ¥241,535 thousand ($2,074 thousand) and ¥185,930 thousand, respectively, including ¥81,073 thousand ($696 thousand) and ¥75,532 thousand of lease payments under finance leases.

Pro forma information of leased property such as acquisition cost, accumulated depreciation, obligation under finance leases, depreciation expense, interest expense of finance leases that do not transfer ownership of the leased property to the lessee on an "as if capitalized" basis for the years ended November 30, 2006 and 2005, was as follows:

For the Year Ended November 30, 2006

	Thousands of Yen			Thousands of U.S. Dollars		
	Machinery and Equipment	Other Assets	Total	Machinery and Equipment	Other Assets	Total
Acquisition cost	¥349,016	¥8,104	¥357,120	$2,996	$70	$3,066
Accumulated depreciation	240,269	3,376	243,645	2,063	29	2,092
Net leased property	¥108,747	¥4,728	¥113,475	$ 933	$41	$ 974

Obligations under finance leases:

	Thousands of Yen	Thousands of U.S. Dollars
Due within one year	¥ 71,671	$ 615
Due after one year	50,328	432
Total	¥121,999	$1,047

Depreciation expense and interest expense under finance leases:

	Thousands of Yen	Thousands of U.S. Dollars
Depreciation expense	¥72,407	$622
Interest expense	6,156	53
Total	¥78,563	$675

For the Year Ended November 30, 2005

	Thousands of Yen		
	Machinery and Equipment	Other Assets	Total
Acquisition cost	¥322,766	¥37,547	¥360,313
Accumulated depreciation	225,628	27,436	253,064
Net leased property	¥ 97,138	¥10,111	¥107,249

Obligations under finance leases:

	Thousands of Yen
Due within one year	¥ 55,376
Due after one year	65,957
Total	¥121,333

Depreciation expense and interest expense under finance leases:

	Thousands of Yen
Depreciation expense	¥67,342
Interest expense	6,282
Total	¥73,624

Depreciation expense and interest expense, which are not reflected in the accompanying consolidated statements of operations, are computed by the straight-line method and the interest method, respectively.

11. DERIVATIVES

The Group enters into derivative financial instruments ("derivatives"), including foreign exchange forward contracts and currency swaps to hedge foreign exchange risk associated with certain assets and liabilities denominated in foreign currencies. The Group also enters into interest rate swap contracts to manage its interest rate exposures on certain liabilities.

Derivatives are subject to market risk and credit risk. Market risk is the exposure created by potential fluctuations in market conditions, including foreign exchange rates or interest rates. Credit risk is the possibility that a loss may result from a counterparty's failure to perform according to the terms and conditions of the contract.

All derivative transactions are entered into to hedge foreign currency exposures and interest incorporated within its business. Accordingly, market risk in these derivatives is basically offset by opposite movements in the value of hedged assets or liabilities. The Group does not hold or issue derivatives for trading purposes.

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

Derivative transactions entered into by the Group have been made in accordance with internal policies which regulate the authorization. Interest rate swap contracts are also approved by the Board of Directors. The execution and control of derivatives are controlled by the Accounting Division.

The Group had the following derivatives contracts outstanding at November 30, 2006 and 2005:

	Thousands of Yen					
	2006			2005		
	Contract or Notional Amount	Fair Value	Unrealized Gain (Loss)	Contract or Notional Amount	Fair Value	Unrealized Gain (Loss)
Forward exchange contracts:						
Buying foreign currency:						
U.S. dollar	¥1,596,536	¥1,598,977	¥ 2,441	¥ 367,093	¥ 393,637	¥ 26,544
Euro	328,461	337,840	9,379	910,079	933,220	23,141
Other currencies	95,883	97,332	1,449	115,597	116,770	1,173
Total	¥2,020,880	¥2,034,149	¥ 13,269	¥1,392,769	¥1,443,627	¥ 50,858
Selling foreign currency:						
U.S. dollar	¥ 264,352	¥ 272,463	¥ (8,111)	¥ 711,307	¥ 772,852	¥ (61,545)
Euro	384,904	394,981	(10,077)	272,912	281,130	(8,218)
Total	¥ 649,256	¥ 667,444	¥ (18,188)	¥ 984,219	¥1,053,982	¥ (69,763)
Currency swaps—yen receipt, U.S. dollar payment	¥2,652,710	¥ (256,452)	¥(256,452)	¥3,143,228	¥ (368,309)	¥(368,309)
Interest rate swaps (fixed rate payment, floating rate receipt)	¥6,011,503	¥ (46,338)	¥ (46,338)	¥6,662,910	¥ (125,324)	¥(125,324)

	Thousands of U.S. Dollars		
	2006		
	Contract or Notional Amount	Fair Value	Unrealized Gain (Loss)
Forward exchange contracts:			
Buying foreign currency:			
U.S. dollar	$13,707	$13,727	$ 20
Euro	2,820	2,900	80
Other currencies	823	836	13
Total	$17,350	$17,463	$ 113
Selling foreign currency:			
U.S. dollar	$ 2,270	$ 2,339	$ (69)
Euro	3,304	3,391	(87)
Total	$ 5,574	$ 5,730	$ (156)
Currency swaps—yen receipt, U.S. dollar payment	$22,774	$ (2,202)	$(2,202)
Interest rate swaps (fixed rate payment, floating rate receipt)	$51,610	$ (398)	$ (398)

Forward exchange contracted amounts which are assigned to associated assets or liabilities and are reflected on the balance sheet at year end, are not subject to the disclosure of market value information.

The contract or notional amounts of derivatives which are shown in the above table do not represent the amounts exchanged by the parties and do not measure the Group's exposure to credit or market risk.

12. CONTINGENT LIABILITIES

At November 30, 2006, the Group had the following contingent liabilities:

	Thousands of Yen	Thousands of U.S. Dollars
Guarantees of bank loans of associated companies	¥2,694,916	$23,136

13. SEGMENT INFORMATION

Information about industry segments, geographical segments and sales to foreign customers of the Company and consolidated subsidiaries for the years ended November 30, 2006 and 2005, is as follows:

(1) Industry Segments

The industry segments of the Company and its subsidiaries for the years ended November 30, 2006 and 2005 are as follows:

a. Sales and Operating Loss

	Thousands of Yen			
	2006			
	Wholesale	Production	Eliminations/ Corporate	Consolidated
Sales to customers	¥34,566,130	¥1,994,788		¥36,560,918
Interarea transfer	699,574	799,330	¥(1,498,904)	
Total sales	35,265,704	2,794,118	(1,498,904)	36,560,918
Operating expenses	35,500,227	3,418,513	(1,357,067)	37,561,673
Operating loss	¥ (234,523)	¥ (624,395)	¥ (141,837)	¥ (1,000,755)

b. ***Total Assets, Depreciation and Amortization, Impairment Loss and Capital Expenditures***

	Thousands of Yen			
	2006			
	Wholesale	Production	Eliminations/ Corporate	Consolidated
Total assets	¥15,930,167	¥8,726,832	¥5,346,217	¥30,003,216
Depreciation and amortization	112,280	616,876	56,317	785,473
Impairment loss	221,423	1,885,256	(303,239)	1,803,440
Capital expenditures	178,927	1,203,560	(29,179)	1,353,308

a. ***Sales and Operating Loss***

	Thousands of U.S. Dollars			
	2006			
	Wholesale	Production	Eliminations/ Corporate	Consolidated
Sales to customers	$296,756	$17,126		$313,882
Interarea transfer	6,006	6,862	$(12,868)	
Total sales	302,762	23,988	(12,868)	313,882
Operating expenses	304,776	29,349	(11,651)	322,474
Operating loss	$ (2,014)	$ (5,361)	$ (1,217)	$ (8,592)

b. ***Total Assets, Depreciation and Amortization, Impairment Loss and Capital Expenditures***

	Thousands of U.S. Dollars			
	2006			
	Wholesale	Production	Eliminations/ Corporate	Consolidated
Total assets	$136,763	$74,922	$45,898	$257,583
Depreciation and amortization	964	5,296	483	6,743
Impairment loss	1,901	16,185	(2,603)	15,483
Capital expenditures	1,536	10,333	(251)	11,618

Effective December 1, 2005, the Group changed its reporting of its industry segments from a single segment, industrial machinery business, to two segments, wholesale business and production business, to reflect the fact that the Chinese consolidated subsidiaries expected to start producing food and beverage containers to full extent and also started filling containers with beverages on consignment. Such reporting change enables the Group's business operations to be disclosed more appropriately.

If the segment information for the year ended November 30, 2005 was prepared using the new segmentation, such information would be as follows:

a. Sales and Operating Income (Loss)

	Thousands of Yen			
	2005			
	Wholesale	Production	Eliminations/ Corporate	Consolidated
Sales to customers	¥31,665,306	¥1,006,064		¥32,671,370
Interarea transfer	1,410,625	647,934	¥(2,058,559)	
Total sales	33,075,931	1,653,998	(2,058,559)	32,671,370
Operating expenses	32,646,515	2,257,808	(1,720,330)	33,183,993
Operating income (loss)	¥ 429,416	¥ (603,810)	¥ (338,229)	¥ (512,623)

b. Total Assets, Depreciation and Amortization and Capital Expenditures

	Thousands of Yen			
	2005			
	Wholesale	Production	Eliminations/ Corporate	Consolidated
Total assets	¥15,932,846	¥9,306,413	¥4,482,282	¥29,721,541
Depreciation and amortization	137,242	310,154	93,357	540,753
Capital expenditures	43,156	3,269,455	(51,180)	3,261,431

(2) Geographical Segments

The geographical segments of the Company and its subsidiaries for the years ended November 30, 2006 and 2005, are as follows:

	Thousands of Yen									
	2006					2005				
	Japan	Asia	Others	Eliminations/ Corporate	Consolidated	Japan	Asia	Others	Eliminations/ Corporate	Consolidated
Sales to customers	¥34,557,557	¥1,942,143	¥ 61,218		¥36,560,918	¥31,469,166	¥ 932,266	¥269,938		¥32,671,370
Interarea transfer	624,638	82,825	1,194	¥ (708,657)		1,429,015	45,704		¥(1,474,719)	
Total sales	35,182,195	2,024,968	62,412	(708,657)	36,560,918	32,898,181	977,970	269,938	(1,474,719)	32,671,370
Operating expenses	35,267,958	2,673,332	114,673	(494,290)	37,561,673	32,360,260	1,619,914	305,916	(1,102,097)	33,183,993
Operating (loss) income	¥ (85,763)	¥ (648,364)	¥ (52,261)	¥ (214,367)	¥ (1,000,755)	¥ 537,921	¥ (641,944)	¥ (35,978)	¥ (372,622)	¥ (512,623)
Total assets	¥16,870,287	¥7,826,400	¥136,017	¥5,170,512	¥30,003,216	¥16,719,815	¥8,461,269	¥193,495	¥ 4,346,962	¥29,721,541

	Thousands of U.S. Dollars				
	2006				
	Japan	Asia	Others	Eliminations/ Corporate	Consolidated
Sales to customers	$296,682	$16,674	$ 526		$313,882
Interarea transfer	5,363	711	10	$ (6,084)	
Total sales	302,045	17,385	536	(6,084)	313,882
Operating expenses	302,782	22,951	985	(4,244)	322,474
Operating loss	$ (737)	$ (5,566)	$ (449)	$ (1,840)	$ (8,592)
Total assets	$144,834	$67,191	$1,168	$44,390	$257,583

(3) Sales to Foreign Customers

Sales to foreign customers for the years ended November 30, 2006 and 2005 amounted to ¥5,625,118 thousand ($48,293 thousand) and ¥4,051,147 thousand, respectively.

14. RELATED PARTY TRANSACTIONS

Transactions of the Group with unconsolidated subsidiaries and associated companies for the years ended November 30, 2006 and 2005, were as follows:

	Thousands of Yen		Thousands of U.S. Dollars
	2006	2005	2006
Sales	¥5,123,283	¥5,683,713	$43,984
Purchases of inventories	156,259	194,814	1,342

15. SUBSEQUENT EVENT

Issue of common stock by third party allocation was approved at the meeting of the Board of Directors held on January 26, 2007.

a. Classification and the number of shares: 8,797,700 shares of common stock
b. Issue price: ¥341 ($2.93) per share
c. Total amount of the shares issued: ¥3,000,015 thousand ($25,756 thousand)
d. Capital incorporation: ¥171 ($1.47) per share
e. Due date of payment: March 1, 2007
f. Underwriter: Phoenix Capital Partners III Capital Investment Partnership (a partnership established pursuant to the Civil Code of Japan)
g. Use of funds: Debts repayment, working capital and capital expenditure

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