



This photograph shows a Suminoe carpet in the Shion banquet hall in the 34-floor Applause Tower in Hotel Hankyu International, Umeda, an Osaka landmark.

The art deco style and purple hues help create an elegant and luxurious space.

Annual Report 2007

SUMINOE TEXTILE CO., LTD.

MESSAGE FROM THE PRESIDENT



President
Ichizo Yoshikawa

Basic Business Policy

We take great pride in being a pioneer in the industry. In line with our mission of providing more pleasant living spaces by constantly offering distinctive designs for interiors, we develop new technologies, which enable the creation of innovative, environment-friendly products. We are now placing even more emphasis on environmental preservation. All Suminoe Textile staff are more committed than ever to enriching the lives of our customers through the development of environmentally sound products and technologies.

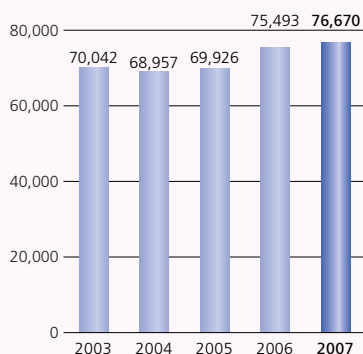
Overview of the Term under Review

During the term under review, the Japanese economy remained robust, thanks to strong capital investment and expanded corporate earnings. However, the delayed impact of healthier corporate performances on the engine of personal consumption, household finances, as well as the appreciation of crude oil prices and concerns of a business slowdown in the United States and China have combined to create uncertainty for the future.

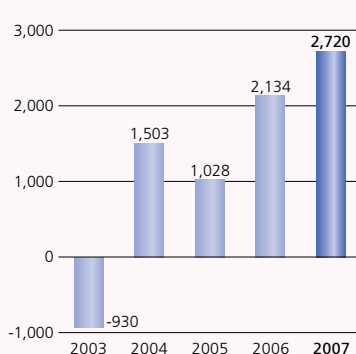
The operating environment for the Suminoe Textile Group showed signs of a positive turnaround, with an increase in housing starts, the development of commercial facilities in areas centering on urban centers, and a pick-up

CONSOLIDATED FINANCIAL HIGHLIGHTS

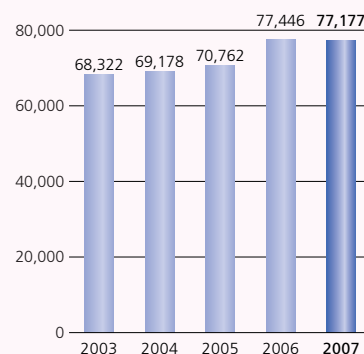
Net Sales (Millions of Yen)



Net Income (loss) (Millions of Yen)



Total Assets (Millions of Yen)



in construction work for facility renewal. However, the competitive landscape became more difficult, due to falling sales prices, rising raw material costs attributable to higher crude oil prices, and mergers and acquisitions within the industry. In the automobile industry, sluggish sales of compact cars and a shift to minicars were observed in the Japanese market, with steep fuel price rises and the diversification of consumer needs as the underlying factors. Overseas, strong demand for Japanese cars spurred production in local markets, so that overseas output is exceeding domestic output. Interior materials manufacturers now also have to closely follow trends in globalization.

To succeed in this operating environment, the Suminoe Textile Group sought to execute its basic policies and pursue aggressive strategies in this, the first year of its medium-term management plan, ACTION-2008. As a result of its initiatives, the Group recorded net sales of ¥76,670 million (US\$630,147 thousand) and net income of ¥2,720 million (US\$22,356 thousand), both on a consolidated basis.

Business Overview by Segment

Interior fittings segment

In the interior fittings segment, we strengthened marketing strategies for each market and business category.

We developed products based on market needs and created a business for environmentally friendly products.

In carpets, we released SG-300, a recycled carpet tile for which production processes emit 19% less carbon dioxide than with previous nylon carpet tiles. As the first carpet certified under the new Eco Mark standard in the industry, it has won plaudits as an environmentally friendly product. Our Carpet Concierge series of high-end roll carpets also enjoyed a substantial rise in sales to commercial users, including hotels and prestigious stores, thanks to their high quality functions, including the TRIPLE FRESH odor-killing treatment, and merchandising proposals such as abundant color variations to match market needs. Additionally, rug mats using SUMITRON, a recycled polyester fiber, performed strongly, thanks to the stellar reputation it earned with its luxurious appearance and fine texture.

In curtains, we included regional characteristics in our marketing strategies, seeking to expand sales of products centering on MODE-S Vol. III, released in 2006, and FACE, a series of curtains designed for schools and hospitals. We also introduced a new, semi-fireproof variant of our TF-V® air-cleaning wall coverings treated with the TRIPLE FRESH odor-killing treatment, an original Suminoe technology. We are endeavoring to offer substantial variations and to

Years ended May 31	Millions of Yen					Thousands of U.S. Dollars*1
	2007	2006	2005	2004	2003	2007
Net sales	¥76,670	¥75,493	¥69,926	¥68,957	¥70,042	\$630,147
Income (loss) before income taxes and minority interests.....	2,211	2,162	1,387	1,356	(1,002)	18,172
Net income (loss).....	2,720	2,134	1,028	1,503	(930)	22,356
Total assets	77,177	77,446	70,762	69,178	68,322	634,314
Total equity*2.....	29,512	27,223	22,786	22,158	18,886	242,558
Amounts per share (in yen and U.S. dollars):						
Net income (loss)*3	¥35.48	¥27.83	¥13.39	¥19.58	¥(12.11)	\$0.29
Cash dividends applicable to the year	5.00	3.50	2.50	2.50		0.04

*1. U.S. dollar amounts are converted from Japanese yen amounts at the rate of U.S.\$1 to ¥121.67, the approximate rate on May 31, 2007.

*2. Amounts posted under "total equity" represent the total sum of equity and minority interests. For the term ended May 2005 and before, the corresponding figures represent amounts posted under shareholders' equity using the previous accounting standards.

*3. Net income (loss) per share of common stock is computed based on the weighted average number of shares outstanding.

expand our product lineup by identifying customer needs. Moreover, we strengthened operations under our own brand during the term, by expanding sales of products centering on originally planned and proposed items. As a result, net sales for the segment came to ¥37,586 million (US\$308,917 thousand), with operating income of ¥1,052 million (US\$8,646 thousand), both on a consolidated basis.

Automotive textile and traffic facilities segment

In automobile businesses, we are making aggressive capital investments in interior materials operations centering on those of our subsidiary in the United States, as Japanese auto manufacturers raise their overseas production ratios. We are globalizing our business operations, and building a global production network that encompasses our subsidiaries and equity method affiliates overseas. During the term, our U.S. subsidiary, Suminoe Textile of America Corporation (STA), posted a sharp increase in sales of carpets, after expanding its manufacturing facilities, and of seat coverings. This achievement offset our sluggish performance in the domestic market. SPM Automotive Textile Co., Ltd. (SPM), a Chinese subsidiary we set up in Guangzhou, Guangdong Province, in 2005, also began producing seat coverings for Japanese auto manufacturers. We are laying the foundations to expand production at this subsidiary.

The operating environment grew more demanding during the term under review, a result of raw material price increases and demands to reduce costs. Nonetheless, we took steps to improve our profitability, including structural reforms covering all operations and improvements in manufacturing efficiency.

We are continuing to step up our investment in product development, so that we can further expand our lineup of advanced designs, new functions and new technologies that satisfy customer expectations.

In commercial vehicles, we experienced a year-on-year drop in sales of seat coverings for buses, production volumes of which remained low. However, sales to Japan Railway companies and private railway operators remained strong. Overall performance was solid, thanks to an increase in sales of environmentally friendly products, including seat cushion materials and hard olefin floor coverings.

As a result of the developments described above, net

sales for the segment totaled ¥34,083 million (US\$280,127 thousand), and operating income was ¥2,263 million (US\$18,599 thousand), both on a consolidated basis.

Others

Sales for other segments, including Original Equipment Manufacturer and electric carpet production, were ¥5,001 million (US\$41,103 thousand), with operating income of ¥236 million (US\$1,940 thousand), both on a consolidated basis.

Note: Effective from the reporting period, the Company has adopted a new segmentation for its operations: Interior fittings, Car interiors and Others, after taking account of similarities of purpose and markets for certain products.

Medium- and Long-Term Management Strategies and Issues

ACTION-2008, the medium-term management plan that we adopted in June 2006, calls for us to strengthen our business structure and expand our profit base. During the term under review, the initial year of the plan, we pursued a number of initiatives designed to achieve these goals. The Suminoe Textile Group is united in its commitments to achieving the plan.

1. Capital investment and personnel training

(1) Strengthening of the manufacturing base and personnel training

Since fiscal 2004, we have been making process and productivity improvements at all of our production locations, with the aim of strengthening our manufacturing base by returning to our origins as a manufacturer. These activities are now starting to produce consistent results through repeated on-site verifications and improvements. We will redouble our activities in these areas. We will also make constructive efforts to pass on the skills we develop through these activities to younger employees, and we will improve our capabilities by training our next generation of leaders.

(2) Capital investment and overseas operations

Capital investments are based on our medium-term management plan. At our Shiga Factory, the fourth plant for SUMITRON, a polyester fiber recycled from PET bottles, began operation in May 2007. We are bolstering our supply capacity for items ranging from original yarn to finished

products. Overseas, we are making a significant investment in STA, our production base for Automobile interior materials in the United States, as well as strengthening its operating foundations, by offering it intensive personnel and technological assistance. In China, SPM, a subsidiary we established in September 2005, began supplying interior materials to Japanese auto manufacturers. It is steadily expanding its production capacity.

2. Reinforcement and expansion of product development

Based on a commitment to KKR (K for kenko [health], K for kankyo [environment] and R for recycling), we are committed to developing environmentally friendly products that can satisfy market needs. In the interior fittings market, we released such products as SG-300, a recycled carpet tile that raised the recycled material ratio to 25% using waste materials, and carpets, curtains, and poly vinyl chloride wall coverings offering the TRIPLE FRESH items. In the automobile market, we have supplied interior materials administered with TRIPLE FRESH odor-killing treatment. Our seat cushion materials, which offer excellent recyclability, and OH sheet, polyolefin hard floor coverings (pvc free), were also adopted for railroad vehicles. As these examples indicate, our products are steadily penetrating their respective markets, and are helping to raise our revenue. Moreover, as odor-killing agents more powerful than the TRIPLE FRESH items currently available, we have developed photocatalytic odor removal agents that address not only formaldehyde but also volatile organic compounds (VOCs), including toluene and xylene. We are now at the commercialization stage.

3. Reinforcing the business structure

(1) Awareness raising through closer focus

To make ourselves stronger, we have begun taking improvement measures at the workplace level. With “discernment” as the keyword, we launched initiatives to better identify true costs and employee potential. In these projects, we are developing shared yardsticks for the whole Group for quantifying performance. We aspire to achieve further growth, by harnessing the knowledge and experience of each of our departments, improving self-help capabilities in all fields—manufacturing, administration, marketing, and R&D—with these achievements shared across the Group.

(2) Improvement of the financial position

We are committed to achieving an equity ratio of 37.5%, a return on equity (ROE) of 6% or more, and a return on assets (ROA) of 4% or more, which are the targets we set in the medium-term management plan, as well as working to decrease interest-bearing liabilities. We will also continue strengthen our consolidated management, with further integration of Group companies.

Note: Return on assets is calculated based on recurring profit, which does not appear on the income statement due to reclassification.

Strengthening the Management Foundation

The Suminoe Textile Group is establishing an organization that permits it to effectively perform its corporate social responsibilities (CSR). We will seek to win public trust by reengineering our operational processes across all departments including consolidated subsidiaries, to establish a management organization that enables us to bolster internal control.

Basic Policy on Shareholder Returns and Dividends for the Term under Review and the Current Term

The Company understands that shareholder returns are a key issue for management, and follows a policy of stable dividend returns. We will aim to make appropriate dividend payments, taking into account our business results and the need for retained earnings for flexible investment. Based on this policy, we paid ¥2.50 (US\$0.02) per share as the year-end dividend. Consequently, our annual dividend for the term under review totaled ¥5.00 (US\$0.04) per share, including the ¥2.50 (US\$0.02) per share paid as the interim dividend. We will maintain this policy, and will again pay ¥5.00 (US\$0.04) per share as the annual dividend for the current term ending May 31, 2008.



Ichizo Yoshikawa
President

CONSOLIDATED BALANCE SHEETS

Suminoe Textile Co., Ltd. and Consolidated Subsidiaries
May 31, 2007 and 2006

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2007	2006	2007
ASSETS			
Current assets:			
Cash and cash equivalents	¥ 6,746	¥ 8,184	\$ 55,445
Marketable securities (Note 3).....	774	780	6,361
Notes and accounts receivables:			
Trade notes.....	9,332	9,212	76,699
Trade accounts	11,025	10,375	90,614
Other.....	1,311	1,231	10,775
Allowance for doubtful receivables	(42)	(41)	(345)
Inventories (Note 4).....	8,913	8,680	73,256
Deferred tax assets (Note 9)	548	563	4,504
Other.....	1,001	1,038	8,227
Total current assets.....	39,608	40,022	325,536
Property, plant and equipment (Notes 2.e and 5):			
Land	16,853	16,852	138,514
Buildings and structures	15,067	14,672	123,835
Machinery and equipment	17,017	16,411	139,862
Construction in progress	83	335	682
Total.....	49,020	48,270	402,893
Accumulated depreciation	(24,333)	(23,923)	(199,992)
Net property, plant and equipment.....	24,687	24,347	202,901
Other assets:			
Investment securities (Notes 3 and 5)	9,864	9,861	81,072
Investments in and loans to associated companies	640	837	5,260
Deferred tax assets (Note 9)	212	260	1,743
Other.....	2,475	2,460	20,342
Allowance for doubtful accounts	(309)	(341)	(2,540)
Total other assets.....	12,882	13,077	105,877
Total	¥77,177	¥77,446	\$634,314

See notes to consolidated financial statements.

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2007	2006	2007
LIABILITIES AND EQUITY			
Current liabilities:			
Short-term borrowings (Note 5)	¥ 8,408	¥ 8,951	\$ 69,105
Current portion of long-term debt (Note 5).....	2,210	3,286	18,164
Notes and accounts payable:			
Trade notes.....	3,978	7,909	32,695
Trade accounts	13,538	9,880	111,268
Construction.....	287	191	2,359
Accrued expenses	2,792	2,218	22,947
Income taxes payable.....	536	340	4,405
Other.....	274	290	2,252
Total current liabilities.....	32,023	33,065	263,195
Long-term liabilities:			
Long-term debt (Note 5)	5,093	4,704	41,859
Liability for retirement benefits (Note 6)	3,993	4,059	32,818
Deferred tax liabilities (Note 9)	385	1,697	3,164
Deferred tax liabilities related to land revaluation excess	5,445	5,445	44,752
Long-term accounts payable	354	891	2,910
Other.....	372	362	3,058
Total long-term liabilities.....	15,642	17,158	128,561
Commitments and contingent liabilities (Notes 11 and 13)			
Equity (Notes 2.e, 2.p, 7 and 14):			
Common stock—authorized, 300,000,000 shares; issued, 76,821,626 shares in 2007 and 2006	9,554	9,554	78,524
Capital surplus.....	2,653	2,653	21,805
Retained earnings	6,052	3,792	49,741
Net unrealized gain on available-for-sale securities	3,836	3,888	31,528
Deferred gain (loss) on derivatives under hedge accounting	2	(24)	16
Land revaluation excess.....	6,961	6,960	57,212
Foreign currency translation adjustments	175	29	1,438
Treasury stock—at cost; 173,576 shares in 2007 and 135,315 shares in 2006	(42)	(27)	(345)
Total.....	29,191	26,825	239,919
Minority interests	321	398	2,639
Total equity	29,512	27,223	242,558
Total	¥77,177	¥77,446	\$634,314

CONSOLIDATED STATEMENTS OF INCOME

Suminoe Textile Co., Ltd. and Consolidated Subsidiaries
Years ended May 31, 2007 and 2006

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2007	2006	2007
Net sales	¥76,670	¥75,493	\$630,147
Cost and operating expenses:			
Cost of sales	60,176	59,469	494,584
Selling, general and administrative (Note 10).....	14,469	14,098	118,920
Total cost and operating expenses	74,645	73,567	613,504
Operating income	2,025	1,926	16,643
Other income (expenses):			
Interest and dividend income	124	121	1,019
Net gain on sales of securities	300	97	2,466
Rental income.....	245	243	2,014
Interest expense.....	(246)	(238)	(2,022)
Rental expense.....	(64)	(69)	(526)
Loss on sales and disposal of property, plant and equipment.....	(72)	(48)	(592)
Impairment loss for long-lived assets (Note 2.f)		(8)	
Loss on transfer of pension plans (Notes 2.g and 6).....		(76)	
Equity in losses of associated companies	(325)	(96)	(2,671)
Other—net (Note 8).....	224	311	1,841
Other income—net.....	186	237	1,529
Income before income taxes and minority interests	2,211	2,162	18,172
Income taxes (Note 9):			
Current.....	(747)	(463)	(6,139)
Deferred	1,225	451	10,068
Total income taxes.....	478	(12)	3,929
Minority interests	31	(16)	255
Net income	¥ 2,720	¥ 2,134	\$ 22,356

	Yen	U.S. Dollars
Per share of common stock (Note 2.o):		
Net income	¥35.48	¥27.83
Cash dividends applicable to the year.....	5.00	3.50
		\$0.29
		0.04

See notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

Suminoe Textile Co., Ltd. and Consolidated Subsidiaries
Years ended May 31, 2007 and 2006

	Thousands	Millions of Yen				
	Outstanding Number of Shares of Common Stock	Common Stock	Capital Surplus	Retained Earnings	Unrealized Gain on Available-for-sale Securities	Deferred Gain (Loss) on Derivatives under Hedge Accounting
Balance, June 1, 2005	76,716,261	¥9,554	¥2,653	¥1,850	¥1,920	
Reclassified balance as of May 31, 2005 (Note 2.p)						
Net income.....				2,134		
Cash dividends, ¥2.5 per share				(192)		
Purchase of treasury stock	(29,950)					
Net change in the year					1,968	¥(24)
Balance, May 31, 2006	76,686,311	9,554	2,653	3,792	3,888	(24)
Net income.....				2,720		
Cash dividends, ¥6.0 per share				(459)		
Purchase of treasury stock	(38,261)					
Net change in the year				(1)	(52)	26
Balance, May 31, 2007	76,648,050	¥9,554	¥2,653	¥6,052	¥3,836	¥ 2

	Millions of Yen					
	Land Revaluation Excess	Foreign Currency Translation Adjustments	Treasury Stock	Total	Minority Interests	Total Equity
Balance, June 1, 2005	¥6,960	¥(134)	¥(17)	¥22,786		¥22,786
Reclassified balance as of May 31, 2005 (Note 2.p)					¥167	167
Net income.....				2,134		2,134
Cash dividends, ¥2.5 per share				(192)		(192)
Purchase of treasury stock			(10)	(10)		(10)
Net change in the year		163		2,107	231	2,338
Balance, May 31, 2006	6,960	29	(27)	26,825	398	27,223
Net income.....				2,720		2,720
Cash dividends, ¥6.0 per share				(459)		(459)
Purchase of treasury stock			(15)	(15)		(15)
Net change in the year	1	146		120	(77)	43
Balance, May 31, 2007	¥6,961	¥ 175	¥(42)	¥29,191	¥321	¥29,512

	Thousands of U.S. Dollars (Note 1)					
	Common Stock	Capital Surplus	Retained Earnings	Unrealized Gain on Available-for-sale Securities	Deferred Gain (Loss) on Derivatives under Hedge Accounting	
Balance, May 31, 2006	\$78,524	\$21,805	\$31,166	\$31,955	\$(197)	
Net income			22,356			
Cash dividends, \$0.05 per share			(3,773)			
Purchase of treasury stock						
Net change in the year			(8)	(427)	213	
Balance, May 31, 2007	\$78,524	\$21,805	\$49,741	\$31,528	\$ 16	

	Thousands of U.S. Dollars (Note 1)					
	Land Revaluation Excess	Foreign Currency Translation Adjustments	Treasury Stock	Total	Minority Interests	Total Equity
Balance, May 31, 2006	\$57,204	\$ 238	\$(222)	\$220,473	\$3,272	\$223,745
Net income.....				22,356		22,356
Cash dividends, \$0.05 per share				(3,773)		(3,773)
Purchase of treasury stock			(123)	(123)		(123)
Net change in the year	8	1,200		986	(633)	353
Balance, May 31, 2007	\$57,212	\$1,438	\$(345)	\$239,919	\$2,639	\$242,558

See notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

Suminoe Textile Co., Ltd. and Consolidated Subsidiaries
Years ended May 31, 2007 and 2006

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2007	2006	2007
Operating activities:			
Income before income taxes and minority interests	¥ 2,211	¥ 2,162	\$ 18,172
Adjustments for:			
Income taxes – paid	(550)	(472)	(4,520)
Depreciation and amortization	979	974	8,046
Decrease in allowance for doubtful receivables and accounts	(31)	(275)	(255)
Net gain on sales of securities	(300)	(97)	(2,466)
Loss on sales and disposal of property, plant and equipment.....	72	48	592
Changes in assets and liabilities:			
Increase in notes and accounts receivable	(765)	(1,567)	(6,287)
Increase in inventories.....	(219)	(550)	(1,800)
(Decrease) increase in notes and accounts payable – trade	(288)	624	(2,367)
Decrease in liability for retirement benefits.....	(66)	(1,470)	(542)
Decrease (increase) in other current assets	17	(357)	140
Increase in other current liabilities	184	290	1,512
Increase (decrease) in long-term accounts payable	(373)	891	(3,066)
Other–net	362	247	2,975
Total adjustments	(978)	(1,714)	(8,038)
Net cash provided by operating activities	1,233	448	10,134
Investing activities:			
Proceeds from sales of property, plant and equipment	364	894	2,992
Purchases of property, plant and equipment	(1,460)	(1,273)	(12,000)
Proceeds from sales and redemption of securities.....	13,309	13,119	109,386
Purchases of marketable and investment securities.....	(13,103)	(12,466)	(107,693)
Increase in other assets	(151)	(10)	(1,241)
Net cash provided by (used in) investing activities.....	(1,041)	264	(8,556)
Financing activities:			
Net change in short-term borrowings.....	(552)	713	(4,537)
Proceeds from long-term debt	2,600	1,500	21,369
Repayments of long-term debt.....	(3,286)	(1,245)	(27,008)
Purchase of treasury stock.....	(15)	(11)	(123)
Proceeds from share issues to minority shareholders	53	216	436
Dividends paid	(456)	(191)	(3,748)
Dividends paid to minority shareholders	(20)	(1)	(164)
Net cash provided by (used in) financing activities.....	(1,676)	981	(13,775)
Foreign currency translation adjustments on cash and cash equivalents....	46	(12)	378
Net (decrease) increase in cash and cash equivalents.....	(1,438)	1,681	(11,819)
Cash and cash equivalents, beginning of year	8,184	6,503	67,264
Cash and cash equivalents, end of year	¥ 6,746	¥ 8,184	\$ 55,445

See notes to consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Suminoe Textile Co., Ltd. and Consolidated Subsidiaries
Years ended May 31, 2007 and 2006

1. Basis of presenting consolidated financial statements

The accompanying consolidated financial statements have been prepared in accordance with the provisions set forth in the Japanese Securities and Exchange Law and its related accounting regulations, and in conformity with accounting principles generally accepted in Japan ("Japanese GAAP"), 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 consolidated statements of shareholders' equity, which was previously voluntarily prepared in line with the international accounting practices, is now required under Japanese GAAP and has been renamed "the consolidated statements 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 2007 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 Suminoe Textile 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 ¥121.67 to \$1, the approximate rate of exchange at May 31, 2007. Such translations should not be construed as representations that the Japanese yen amounts could be converted into U.S. dollars at that or any other rate.

2. Summary of significant accounting policies

a. Principles of consolidation

The accompanying consolidated financial statements as of May 31, 2007 include the accounts of the Company and all subsidiaries (together, the "Companies").

Under the control or influence concept, those companies which the Company, directly or indirectly, is able to exercise control over operations are fully consolidated.

The Companies' investments in associated companies (companies over which the Companies have the ability to exercise significant influence) are accounted for by the equity method.

Costs in excess of net assets of subsidiaries at the date of acquisition that cannot be specifically assigned to individual assets are charged to income as incurred.

All significant intercompany transactions and balances have been eliminated. All material unrealized profits included in assets resulting from transactions within the Companies are eliminated.

b. Cash and 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 that represent short-term investments, all of which mature within three months of the date of acquisition.

c. Inventories

Inventories are stated at cost determined by the average method.

d. Marketable and investment securities

Marketable and investment securities are classified and accounted for, depending on management's intent, as follows: i) trading securities, which are held for the purpose of earning capital gains in the near term, are reported at fair value, and the related unrealized gains and losses are included in earnings, ii) held-to-maturity debt securities, which management has the positive intent and ability to hold to maturity, are reported at amortized cost, and iii) available-for-sale securities, which are those securities not classified as either of the aforementioned securities, are reported at fair value, with unrealized gains and losses, net of applicable taxes, reported as 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, non-marketable available-for-sale securities are reduced to net realizable value by a charge to income.

e. Property, plant and equipment

Property, plant and equipment except land are stated at cost. Depreciation is computed over the estimated useful lives of the assets by the declining-balance method while the straight-line method is applied to buildings acquired after April 1, 1998, at rates based on the useful lives of the assets. The range of estimated useful lives is principally from 3 to 50 years for buildings and from 4 to 17 years for machinery and equipment.

Under the "Law of Land Revaluation," promulgated and revised on March 31, 1998 and 1999, respectively, the Company elected a one-time revaluation of its own-use land to a value based on real estate appraisal information as of May 31, 2000. The resulting land revaluation excess represents unrealized appreciation of land and is stated, net of income taxes, as a component of equity. There was no effect on the consolidated statements of income. Continuous readjustment is not permitted unless the land value subsequently declines significantly such that the amount of the decline in value should be removed from the land revaluation excess account and related deferred tax liabilities. The details of the one-time revaluation as of May 31, 2000 were as follows:

Land before revaluation:	¥ 3,436 million
Land after revaluation:	¥16,713 million
Land revaluation excess:	¥ 7,700 million
	(net of income taxes of ¥5,576 million)

As of May 31, 2007, the carrying amount of the land after the above one-time revaluation exceeded the market value by ¥5,280 million (\$43,396 thousand).

Depreciation of property, plant and equipment of the Company acquired on and after April 1, 2007 is computed by the revised declining-balance method under the revised Japanese Corporate Tax Law effective April 1, 2007. The effect of this on the consolidated financial statements was not material.

f. Long-lived assets

The Company reviewed its long-lived assets for impairment as of the year ended May 31, 2006 and, as a result, recognized an impairment loss of ¥8 million as other expense for certain idle lands. The carrying amount of the idle land was written down to its recoverable amounts. The Company purchased this land for plant construction and fringe benefits, however, the Company has no plans for its use at present. The recoverable amount was measured at its net selling price that was calculated by assessed value of fixed assets.

g. Retirement benefits

The Companies account for the liability for retirement benefits based

on the projected benefit obligations and plan assets at the balance sheet date.

On April 23, 2002, the Company obtained an approval to relinquish the entrusted government portion of the contributory funded plans by government according to enforcement of the defined benefit enterprise pension law on April 1, 2002.

The differences between the liability to be relinquished and the related pension fund assets were credited to income on the date when government's approval was obtained according to "Practical Guidelines of Accounting for Retirement Benefits (Interim Report)" issued by the Japanese Institute of Certified Public Accountants, for the year ended May 31, 2003.

On March 26, 2004, the Company terminated its contributory funded plan in addition to the entrusted government portion of the contributory funded plans when the Company obtained the government's approval.

On March 31, 2005, the Company thereafter transferred the entrusted government portion and related assets to the government and recognized ¥56 million as income for the difference between the balance of the retirement benefit liabilities brought forward and the amount actually transferred for the year ended May 31, 2005.

On April 1, 2006, the Company implemented a defined contribution pension plan by which the non-contributory funded retirement plan and a part of unfunded retirement plans were terminated according to the enactment of the Defined Contribution Pension Plan Law in October 2001. The effect of transfer was to decrease income before income taxes and minority interests by ¥76 million and was recorded as loss on transfer of pension plans in the statement of income for the year ended May 31, 2006.

In addition, certain subsidiaries have a contributory trusted pension plan covering most of their employees together with multi-employers. The certain subsidiaries fund and record contributions as a charge to income as current period costs and prior service costs. The pension fund assets available for benefits under this plan were approximately ¥542 million (\$4,455 thousand) and ¥434 million at May 31, 2007 and 2006, respectively.

The Company provides for the liability for directors and corporate auditors' retirement benefits at the amounts which would be required to be paid if all directors and corporate auditors retired at the balance sheet date. Amounts payable to directors and corporate auditors upon retirement are subject to the approval of shareholders.

h. Leases

All leases are accounted for as operating leases. Under Japanese accounting standards for leases, finance leases that do not transfer ownership of the leased property to the lessee 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 consolidated financial statements.

i. Income taxes

The provision for current income taxes is computed based on the pre-tax income included in the consolidated statements of income. The asset and liability approach is used to recognize deferred tax assets and liabilities for the expected future tax consequences of temporary differences between the carrying amounts and the tax basis of assets and liabilities. Deferred taxes are measured by applying currently enacted tax laws to the temporary differences.

j. Foreign currency transactions

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

k. Foreign currency financial statements

The balance sheet accounts of foreign subsidiaries and associated companies are translated into Japanese yen at the current exchange rates as of the balance sheet dates except for equity, which is translated at the historical rates. Revenue and expense accounts of the foreign subsidiaries and associated companies are translated into Japanese yen at the average annual exchange rates.

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

l. Derivatives and hedging activities

The Company uses foreign exchange forward contracts and interest rate swaps to manage its exposures to fluctuations in foreign exchange and interest rates. The Company does not enter into derivatives for trading or speculative purposes.

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

The foreign exchange forward contracts are utilized to hedge foreign currency exposures on overseas transactions. Trade payables and receivables denominated in foreign currencies are translated at the contracted rates if the forward contracts qualify for hedge accounting.

The interest rate swaps that 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 is recognized and included in interest expense or income.

m. Bonuses to directors and corporate auditors

Prior to the fiscal year ended May 31, 2006, bonuses to directors and corporate auditors were accounted for as a reduction of retained earnings after approval of appropriation of retained earnings at the general shareholders meeting in the following year. The ASBJ has issued ASBJ Practical Issues Task Force ("PITF") No. 13, "Accounting Treatment for Bonuses to Directors and Corporate Auditors," which encourages companies to record bonuses to directors and corporate auditors on the accrual basis with a related charge to income, and still permits the direct reduction of such bonuses from retained earnings after approval of appropriation of retained earnings.

As the Company provided no bonuses to directors and corporate auditors as at May 31, 2006, which are subject to shareholders' approval, there was no effect on consolidated statements of income for the year ended May 31, 2006.

n. Bond issuance costs

Bond issuance costs are charged to income as incurred.

o. Per share information

Basic net income per share is computed by dividing net income available to common shareholders by the weighted-average number of common shares outstanding for the year, retroactively adjusted for stock splits.

The computations of net income per share of common stock are based on the weighted average number of shares outstanding during each year of 76,667,234 shares for the year ended May 31, 2007 and 76,700,648 shares for the year ended May 31, 2006.

Diluted net income per share is not disclosed because the Companies have not issued dilutive securities.

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

p. Presentation of equity

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

q. New accounting pronouncements

Measurement of Inventories

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

Lease Accounting

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

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

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

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

Under Japanese GAAP, a company currently can use the financial statements of foreign subsidiaries which are prepared in accordance with generally accepted accounting principles in their respective jurisdictions for its consolidation process unless they are clearly unreasonable. On May 17, 2006, the ASBJ issued ASBJ Practical Issues Task Force ("PITF") No. 18, "Practical Solution on Unification of Accounting Policies Applied to Foreign Subsidiaries for the Consolidated Financial Statements." The new task force prescribes:

1) the accounting policies and procedures applied to a parent company and its subsidiaries for similar transactions and events under similar circumstances should in principle be unified for the preparation of the consolidated financial statements, 2) financial statements prepared by foreign subsidiaries in accordance with either International Financial Reporting Standards or the generally accepted accounting principles in the United States tentatively may be used for the consolidation process, 3) however, the following items should be adjusted in the consolidation process so that net income is accounted for in accordance with Japanese GAAP unless they are not material;

- (1) Amortization of goodwill
- (2) Actuarial gains and losses of defined benefit plans recognized outside profit or loss
- (3) Capitalization of intangible assets arising from development phases
- (4) Fair value measurement of investment properties, and the revaluation model for property, plant and equipment, and intangible assets

(5) Retrospective application when accounting policies are changed

(6) Accounting for net income attributable to a minority interest

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

3. Marketable and investment securities

Marketable and investment securities as of May 31, 2007 and 2006 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2007	2006	2007
Current:			
Government and corporate bonds.....		¥ 8	
Other	¥ 774	772	\$ 6,361
Total.....	¥ 774	¥ 780	\$ 6,361
Non-current:			
Equity securities.....	¥9,864	¥9,861	\$81,072

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

	Millions of Yen			
	2007			
	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Securities classified as available-for-sale:				
Equity securities.....	¥3,389	¥5,805	¥3	¥9,191

	Millions of Yen			
	2006			
	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Securities classified as available-for-sale:				
Equity securities.....	¥3,297	¥5,892	¥5	¥9,184
Government and corporate bonds.....	7	1		8
Total.....	¥3,304	¥5,893	¥5	¥9,192

	Thousands of U.S. Dollars			
	2007			
	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Securities classified as available-for-sale:				
Equity securities.....	\$27,854	\$47,711	\$25	\$75,540

Available-for-sale securities included in marketable and investment securities whose fair value is not readily determinable as of May 31, 2007 and 2006 were as follows:

	Carrying Amount		
	Millions of Yen		Thousands of U.S. Dollars
	2007	2006	2007
Available-for-sale:			
Equity securities.....	¥ 673	¥ 677	\$ 5,531
Other	774	772	6,362
Total.....	¥1,447	¥1,449	\$11,893

Proceeds from sales of available-for-sale securities for the years ended May 31, 2007 and 2006 were ¥3,719 million (\$30,566 thousand) and ¥3,547 million, respectively. Gross realized gains and losses on these sales, computed on the moving average cost basis, were ¥313 million (\$2,573 thousand) and ¥14 million (\$115 thousand), respectively for the year ended May 31, 2007 and ¥110 million and ¥13 million, respectively, for the year ended May 31, 2006.

The carrying values of debt securities and investment funds in trust by contractual maturities for securities classified as available-for-sale at

May 31, 2007 are as follows:

	Millions of Yen	Thousands of U.S. Dollars
Due in one year or less	¥774	\$6,361

4. Inventories

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

	Millions of Yen		Thousands of U.S. Dollars
	2007	2006	2007
Finished products and purchased merchandise.....	¥6,847	¥6,334	\$56,275
Work-in-process.....	1,100	1,252	9,041
Materials and supplies.....	966	1,094	7,940
Total.....	¥8,913	¥8,680	\$73,256

5. Short-term borrowings and long-term debt

Short-term borrowings are principally comprised of bank overdrafts. As is customary in Japan, the Companies obtain financing by discounting trade notes receivable with banks. Such discounted notes and the related contingent liabilities are not included in the consolidated balance sheets but are disclosed as contingent liabilities (see Note 13). The weighted average annual interest rates for short-term borrowings and notes discounted at May 31, 2007 and 2006 were 1.72% and 1.60%, respectively.

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

	Millions of Yen		Thousands of U.S. Dollars
	2007	2006	2007
Unsecured bonds:			
1.46%, due January 2007		¥2,000	
0.47%, due September 2007 ...	¥1,000	1,000	\$ 8,219
0.39%, due June 2010.....	1,400	1,500	11,507
1.18%, due December 2010	500	500	4,109
Collateralized loans from banks and other financial institutions, due through 2011 with interest ranging from 1.15% to 1.95% ...	4,403	2,990	36,188
Total.....	7,303	7,990	60,023
Less current portion	2,210	3,286	18,164
Long-term debt, less current portion.....	¥5,093	¥4,704	\$41,859

At May 31, 2007, annual maturities of long-term debt, less current portion were as follows:

Year Ending May 31	Millions of Yen	Thousands of U.S. Dollars
2008	¥ 667	\$ 5,482
2009	393	3,230
2010	1,970	16,191
2011	2,063	16,956
Total	¥5,093	\$41,859

At May 31, 2007, assets pledged as collateral for short-term borrowings of ¥1 million (\$8 thousand) and long-term debt (including current portion) of ¥1,804 million (\$14,827 thousand) were as follows:

	Millions of Yen	Thousands of U.S. Dollars
Property, plant and equipment, less accumulated depreciation	¥9,177	\$75,425
Investment securities	4,241	34,857

Bank overdrafts are generally covered under basic written agreements which provide that additional collateral (including sums on deposit with such banks) or guarantors will be furnished at the banks' request and that any collateral furnished will be applicable to all indebtedness due to such banks. Certain long-term loan agreements provide that

lenders may request the Companies to submit proposals to pay dividends for approval. The Companies have never received such a request from any of their lenders.

6. Retirement benefits

The Company and certain subsidiaries have unfunded retirement plans covering substantially all of their employees.

Under the unfunded retirement plans, employees terminating their employment are entitled, in most circumstances, to lump-sum severance payments determined by reference to the rate of pay at time of termination, years of service and certain other factors.

According to the enactment of the Defined Contribution Pension Plan Law in October 2001, the Company implemented a defined contribution pension plan in April 2006 by which the non-contributory funded retirement plan and a part of unfunded retirement plans were terminated. The Company applied accounting treatment specified in the guidance issued by the ASBJ. The effect of transfer was to decrease income before income taxes and minority interests by ¥76 million and was recorded as loss on transfer of pension plans in the statement of income for the year ended May 31, 2006.

The liability for retirement benefits for 2007 and 2006 included ¥356 million (\$2,926 thousand) and ¥350 million, respectively, for retirement benefits of directors and corporate auditors.

The liability (asset) for employees' retirement benefits at May 31, 2007 and 2006 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2007	2006	2007
Projected benefit obligation	¥3,754	¥3,758	\$30,854
Unrecognized actuarial loss	(117)	(49)	(962)
Net liability	¥3,637	¥3,709	\$29,892

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

	Millions of Yen		Thousands of U.S. Dollars
	2007	2006	2007
Service cost	¥314	¥323	\$2,581
Interest cost	87	163	715
Expected return on plan assets		(33)	
Recognized actuarial loss.....	10	76	82
Amortization of prior service costs....		11	
Payment to defined contribution pension plan	67	11	551
Loss on transfer of pension plans....		76	
Net periodic benefit costs ...	¥478	¥627	\$3,929

The Company recognized the loss on transfer of pension plans, which consists of the recognition of unrecognized actuarial loss, the prior service costs and the payment to its former employees who have right to receive payments from the plan on April 1, 2006.

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

	2007	2006
Discount rate.....	2.5%	2.5%
Expected rate of return on plan assets	2.5%	2.5%
Recognition period of actuarial gain/loss.....	10 years	10 years
Amortization period of prior service costs	10 years	10 years

7. 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 at least equal to 10% 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. The amount of capital surplus and retained earnings available for dividends under the Code was ¥6,805 million (\$55,930 thousand) as of May 31, 2007, based on the amount recorded in the parent company's general books of account.

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 dividends 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.

8. Other income (expenses): Other-net

"Other income (expenses): Other-net" for the years ended May 31, 2007 and 2006 consisted of the following:

	Millions of Yen		Thousands of
	2007	2006	U.S. Dollars
			2007
Gain on change in interest in associated companies.....	¥ 38		\$ 312
Reversal of allowance for doubtful accounts.....		¥ 60	
Write-down of golf membership....		(57)	
Other-net	186	308	1,529
Total.....	¥224	¥311	\$1,841

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 May 31, 2007 and 2006, respectively.

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

	Millions of Yen		Thousands of
	2007	2006	U.S. Dollars
Deferred tax assets:			2007
Allowance for doubtful receivables and accounts	¥ 83	¥ 275	\$ 682
Liabilities for retirement benefits.....	1,620	1,641	13,315
Tax loss carryforwards	373	508	3,066
Investment securities	347	347	2,852
Other	771	1,040	6,337
Less valuation allowance	(870)	(2,694)	(7,151)
Total deferred tax assets.....	¥2,324	¥1,117	\$19,101
Deferred tax liabilities:			
Retained earnings appropriated for tax allowable reserves	¥ 11	¥ 11	\$ 90
Net unrealized gain on available-for-sale securities	1,944	1,980	15,978
Total deferred tax liabilities.....	¥1,955	¥1,991	\$16,068
Net deferred tax assets.....	¥ 760	¥ 823	\$ 6,246
Net deferred tax liabilities.....	¥ 390	¥1,697	\$ 3,205

At May 31, 2007 the Company and certain subsidiaries have tax loss carryforwards aggregating approximately ¥1,558 million (\$12,805 thousand) which are available to be offset against taxable income of the Companies in future years. These tax loss carryforwards, if not utilized, will expire as follows:

Year Ending May 31	Millions of Yen	Thousands of U.S. Dollars
2008	¥ 23	\$ 189
2009	53	436
2011	179	1,471
2012	203	1,668
Thereafter	1,100	9,041
Total	¥1,558	\$12,805

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

	2007	2006
Normal effective statutory tax rate	40.7%	40.7%
Change in valuation allowance	(70.7)	(50.7)
Equity in losses of unconsolidated subsidiaries and affiliates	5.3	2.1
Expenses not deductible for income tax purposes	1.9	2.4
Per capita levy.....	1.9	1.9
Unrecognized deferred tax of unrealized gain		(0.2)
Difference of tax rates for foreign subsidiaries....	1.7	3.8
R & D tax credit	(0.9)	(0.6)
Other-net.....	(1.5)	1.1
Actual effective tax rate	(21.6)%	0.5%

10. Research and development costs

Research and development costs charged to income were ¥275 million (\$2,260 thousand) and ¥262 million for the years ended May 31, 2007 and 2006, respectively.

11. Leases

The Company leases certain machinery and equipment. Total lease payments under finance leases that are not deemed to transfer ownership of the leased property to the lessee are ¥71 million (\$584 thousand) and ¥74 million for the years ended May 31, 2007 and 2006, respectively.

Pro forma information on an "as if capitalized" basis for leased property under finance leases that do not transfer ownership of the leased property to the lessee as of May 31, 2007 and 2006 is as follows:

	Millions of Yen		Thousands of
	2007	2006	U.S. Dollars
Machinery and equipment:			2007
Acquisition cost.....	¥139	¥322	\$1,143
Accumulated depreciation.....	(63)	(175)	(518)
Net leased property	¥ 76	¥147	\$ 625

Obligations under finance leases as of May 31, 2007 and 2006:

	Millions of Yen		Thousands of
	2007	2006	U.S. Dollars
Due within one year.....	¥40	¥ 71	\$329
Due after one year	36	76	296
Total	¥76	¥147	\$625

The amounts of acquisition cost and obligations under finance leases includes the imputed interest expense portion.

The minimum rental commitments under noncancelable operating leases at May 31, 2007 were as follows:

	Millions of Yen	Thousands of U.S. Dollars
Due within one year	¥ 167	\$ 1,373
Due after one year.....	1,119	9,197
Total	¥1,286	\$10,570

Depreciation expense, which is not reflected in the accompanying consolidated statements of income, computed by the straight-line method, was ¥71 million (\$584 thousand) and ¥74 million for the years ended May 31, 2007 and 2006, respectively.

12. Derivatives

The Company enters into derivative financial instrument contracts, in the normal course of business, to reduce the exposure to fluctuations in interest rates and foreign exchange rates. The Company has utilized interest rate swaps to decrease interest expense on long-term debt. The Company also enters into foreign exchange forward contracts to hedge market risk from changes in foreign exchange rates associated with assets and liabilities denominated in foreign currencies. The Company does not hold or issue derivatives for trading purposes. Subsidiaries do not enter into derivatives.

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

The basic policies for the use of derivatives are approved by the Board of Directors and the execution and control of derivatives are controlled by the Finance Processing Section of the Finance Accounting Department. Each derivative transaction is reported to the Accounting Section of the Finance Accounting Department.

Derivative financial instruments which qualify for hedge accounting for the years ended May 31, 2007 and 2006, are not subject to the disclosure of market value information.

13. Contingent liabilities

Contingent liabilities at May 31, 2007 were as follows:

	Millions of Yen	Thousands of U.S. Dollars
Employees' housing loans guaranteed	¥9	\$74

14. Subsequent event

The following appropriations of retained earnings at May 31, 2007 were approved at the Company's shareholders meeting held on August 30, 2007:

	Millions of Yen	Thousands of U.S. Dollars
Year-end cash dividends, ¥2.5 (\$0.02) per share	¥192	\$1,578

15. Segment information

Information about industry segments, geographical segments and sales to foreign customers of the Company and subsidiaries for the years ended May 31, 2007 and 2006, is as follows:

(1) Industry Segments

a. Sales and Operating Income

	Millions of Yen				
	2007				
	Interior Fittings	Automotive Textile and Traffic Facilities	Others	Eliminations/ Corporate	Consolidated
Sales to customers	¥37,586	¥34,083	¥5,001		¥76,670
Intersegment sales	81	16	186	¥ (283)	
Total sales	37,667	34,099	5,187	(283)	76,670
Operating expenses.....	36,615	31,836	4,951	1,243	74,645
Operating income	¥ 1,052	¥ 2,263	¥ 236	¥(1,526)	¥ 2,025

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

	Millions of Yen				
	2007				
	Interior Fittings	Automotive Textile and Traffic Facilities	Others	Eliminations/ Corporate	Consolidated
Total assets	¥26,375	¥24,181	¥3,970	¥22,651	¥77,177
Depreciation	286	493	102	98	979
Capital expenditures	613	1,151	234	16	2,014

a. Sales and Operating Income

	Thousands of U.S. Dollars				
	2007				
	Interior Fittings	Automotive Textile and Traffic Facilities	Others	Eliminations/ Corporate	Consolidated
Sales to customers	\$308,917	\$280,127	\$41,103		\$630,147
Intersegment sales	666	131	1,529	\$ (2,326)	
Total sales	309,583	280,258	42,632	(2,326)	630,147
Operating expenses.....	300,937	261,659	40,692	10,216	613,504
Operating income	\$ 8,646	\$ 18,599	\$ 1,940	\$(12,542)	\$ 16,643

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

	Thousands of U.S. Dollars				
	2007				
	Interior Fittings	Automotive Textile and Traffic Facilities	Others	Eliminations/ Corporate	Consolidated
Total assets	\$216,775	\$198,742	\$32,629	\$186,168	\$634,314
Depreciation	2,351	4,052	838	805	8,046
Capital expenditures	5,038	9,460	1,923	132	16,553

Effective May 1, 2006, the Companies changed its business segmentation from two segments, "Interior fabric," and "Other" to three segments, "Interior Fittings," "Automotive Textile and Traffic Facilities," and "Others" in accordance with business categories mentioned in the Midterm Management Plan resolved by the Board of Directors.

(2) Geographical Segments

Under Japanese accounting regulations, the Companies are not required to disclose geographical segment information because sales and total assets in Japan represented more than 90% of those of the Companies for the periods presented herein.

(3) Sales to Foreign Customers

Under Japanese accounting regulations, the Companies are not required to disclose sales to foreign customers information because sales to foreign customers represented less than 10% of those of the Companies for the periods presented herein.



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To the Board of Directors of Suminoe Textile Co., Ltd.:

We have audited the accompanying consolidated balance sheets of Suminoe Textile Co., Ltd. and consolidated subsidiaries (the "Company") as of May 31, 2007 and 2006, and the related consolidated statements of income, changes in equity, and cash flows for the years then ended, all expressed in Japanese yen. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

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

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

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

A handwritten signature in black ink that reads "Deloitte Touche Tohmatsu". The signature is written in a cursive, flowing style.

August 30, 2007

Member of
Deloitte Touche Tohmatsu

CORPORATE DIRECTORY

BOARD OF DIRECTORS AND CORPORATE AUDITORS (as of August 30, 2007)

President

Ichizo Yoshikawa
(Representative Director)

Managing Directors

Makoto Odajima
(Representative Director)
Syun Hayashi
Mitsuhiko Akizuki

Directors

Shinji Yoshida
Toshikazu Masukawa
Noboru Ogawa
Kenji Sukino

Corporate Auditors

Ken-ichi Yamagata
Satoshi Adachi
Isao Yamabe

INVESTOR INFORMATION (as of May 31, 2007)

Year of Establishment: 1883

Paid-in Capital Stock: ¥9,554,173,950

Authorized Shares: 300,000,000 shares

Major Shareholders: Takashimaya Company, Limited
Nippon Life Insurance Company
Marubeni Corporation
The Master Trust Bank of Japan, Ltd.
(Trust account)
Mizuho Corporate Bank, Ltd.
TOYOTA MOTOR CORPORATION

Issued Shares: 76,821,626 shares

Shareholders: 5,012

Employees: 421

The Master Trust Bank of Japan Ltd.
(as trustee for Retirement Benefit Trust of
UNITIKA LTD.)

The Bank of Tokyo-Mitsubishi UFJ, Ltd.

The Bank of Ikeda, Ltd.

Suminoe Textile's Employees' Association

CORPORATE DATA (as of May 31, 2007)

Subsidiaries

Suminoe Co., Ltd.
Runon Co., Ltd.
Marunaka Souei Co., Ltd.
Suminoe Works Co., Ltd.
Suminoe Logistics Co., Ltd.
Sewing Hyogo Co., Ltd.
Tango Textile Co., Ltd.
Suminoe Koka Co., Ltd.
Suminoe Nara Co., Ltd.
Suminoe Textile of America Corp.
Suzhou Suminoe Textiles Co., Ltd.
SPM Automotive Textile Co., Ltd.
Kansai Laboratory Co., Ltd.
Degora Trading Co., Ltd.
Many Able Co., Ltd.

Associated Companies

T.C.H. Suminoe Co., Ltd.
K's Tec Co., Ltd.
KST Co., Ltd.
Suzhou Suminoe Koide Automotive
Accessories Co., Ltd.
PT Sinar Suminoe Indonesia
Sumisho Airbag Systems Co., Ltd.

Offices

*Head Office, Osaka Branch &
Osaka Showroom*
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Chuo-ku, Osaka 542-8504
Phone: +81-6-6251-6801
Fax: +81-6-6251-0862

Tokyo Branch & Tokyo Showroom
BR Gotanda-Building, 30-4,
Nishi-Gotanda 2-Chome,
Shinagawa-ku, Tokyo 141-0031
Phone: +81-3-5434-2860
Fax: +81-3-5434-6542

Sales Offices

Sapporo, Sendai, Kita-kanto, Chiba,
Yokohama, Shizuoka, Kanazawa,
Nagoya, Kyoto, Kobe, Okayama,
Hiroshima, Fukuoka, Kagoshima

Factories

Nara, Osaka, Shiga, Kyoto

R&D Center

5-8, Obori 1-Chome, Matsubara,
Osaka 580-0006
Phone: +81-72-330-5745
Fax: +81-72-330-2519

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