

# FINANCIAL INFORMATION

## Consolidated Balance Sheets

Takuma Co., Ltd. and Consolidated Subsidiaries

As of March 31, 2008 and 2007

ASSETS	Millions of Yen		Thousands of U.S.dollars (Note 1)
	2008	2007	2008
Current assets:			
Cash and time deposits (Notes 4 and 7) .....	¥ 26,434	¥ 25,901	\$ 263,839
Marketable securities (Notes 4 and 5) .....	33	33	329
Notes and accounts receivable:			
Trade .....	31,136	39,481	310,770
Unconsolidated subsidiaries and affiliated companies .....	2,891	2,146	28,855
Other (Note 7) .....	579	569	5,779
Less: Allowance for doubtful accounts .....	(30)	(29)	(299)
	<b>34,576</b>	<b>42,167</b>	<b>345,105</b>
Inventories .....	9,621	9,125	96,028
Deferred tax assets (Note 14) .....	1,141	1,188	11,388
Advanced money.....	397	1,671	3,962
Other .....	1,354	1,369	13,514
<b>Total current assets</b> .....	<b>73,556</b>	<b>81,454</b>	<b>734,165</b>
Investments and other assets:			
Investment securities (Notes 5 and 7) .....	19,518	26,860	194,810
Investments in:			
Unconsolidated subsidiaries and affiliated companies (Note 7) .....	4,797	5,696	47,879
Other (Note 10) .....	1,832	2,359	18,285
Less: Allowance for doubtful accounts .....	(664)	(671)	(6,627)
	<b>5,965</b>	<b>7,384</b>	<b>59,537</b>
Deferred tax assets (Note 14).....	997	948	9,951
Other .....	2,204	2,710	21,998
	<b>28,684</b>	<b>37,902</b>	<b>286,296</b>
Property, plant and equipment:			
Land (Notes 7 and 8).....	4,090	4,095	40,822
Buildings and structures (Note 7) .....	11,865	10,182	118,425
Machinery and equipment .....	8,711	9,993	86,945
Construction in progress .....	-	227	-
	<b>24,666</b>	<b>24,497</b>	<b>246,192</b>
Less: Accumulated depreciation .....	(14,279)	(15,020)	(142,519)
	<b>10,387</b>	<b>9,477</b>	<b>103,673</b>
	<b>¥112,627</b>	<b>¥ 128,833</b>	<b>\$ 1,124,134</b>

See accompanying notes.

LIABILITIES AND NET ASSETS	Millions of Yen		Thousands of U.S.dollars (Note 1)
	2008	2007	2008
Current liabilities:			
Short-term bank loans (Notes 7 and 9) .....	¥ 7,870	¥ 7,285	\$ 78,551
Current portion of long-term debt (Notes 7 and 9) .....	78	99	779
Notes and accounts payable:			
Trade .....	27,766	34,126	277,133
Unconsolidated subsidiaries and affiliated companies .....	292	852	2,914
Other .....	794	1,104	7,925
	<u>28,852</u>	<u>36,082</u>	<u>287,972</u>
Accrued income taxes (Note 14) .....	462	472	4,611
Consumption tax payable .....	356	533	3,553
Accrued expenses .....	2,804	3,038	27,987
Allowance for losses on sales contracts .....	5,477	528	54,666
Advances received .....	8,369	5,292	83,531
Deferred tax liabilities (Note 14) .....	0	1	0
Other .....	1,937	888	19,334
<b>Total current liabilities</b> .....	<b>56,205</b>	<b>54,218</b>	<b>560,984</b>
Long-term debt (Notes 7 and 9) .....	794	24	7,925
Allowance for employees' retirement benefits (Note 10) .....	5,374	5,417	53,638
Allowance for directors', executive officers', and corporate auditors' retirement benefits..	292	526	2,914
Deferred tax liabilities (Note 14) .....	3,239	5,463	32,329
Deferred tax liability for revaluation reserve for land (Notes 8 and 14) ...	279	279	2,785
Negative goodwill .....	160	-	1,597
Other .....	304	2	3,034
<b>Total liabilities</b> .....	<b>66,647</b>	<b>65,929</b>	<b>665,206</b>
Contingent liabilities (Notes 6, 11 and 17)			
Net assets (Note 12):			
Common stock			
Authorized: 321,840,000 shares			
Issued: 87,799,248 shares .....	13,367	13,367	133,417
Capital surplus .....	12,408	12,408	123,845
Retained earnings .....	14,384	27,796	143,567
Less: Treasury stock, at cost .....	(3,178)	(3,177)	(31,720)
Net unrealized holding gain on available-for-sale securities, net of taxes ....	4,621	8,188	46,122
Unrealized gain (loss) on hedging derivatives, net of taxes .....	(14)	3	(140)
Revaluation reserve for land, net of taxes (Note 8) .....	270	270	2,695
Foreign currency translation adjustments .....	264	468	2,635
Minority interests in consolidated subsidiaries.....	3,858	3,581	38,507
<b>Total net assets</b> .....	<b>45,980</b>	<b>62,904</b>	<b>458,928</b>
	<u>¥ 112,627</u>	<u>¥ 128,833</u>	<u>\$ 1,124,134</u>

# Consolidated Statements of Operations

Takuma Co., Ltd. and Consolidated Subsidiaries

For the years ended March 31, 2008 and 2007

	Millions of Yen		Thousands of U.S.dollars (Note 1)
	2008	2007	2008
<b>Net sales (Note 15)</b> .....	¥ 105,612	¥ 98,748	\$ 1,054,117
<b>Cost of sales (Notes 13 and 15)</b> .....	99,032	87,152	988,442
Gross profit .....	6,580	11,596	65,675
<b>Selling, general and administrative expenses (Notes 13 and 15)</b> .....	18,367	18,356	183,322
Operating loss (Note 15) .....	(11,787)	(6,760)	(117,647)
<b>Other income (expenses):</b>			
Interest and dividend income .....	729	544	7,276
Interest expense .....	(124)	(42)	(1,238)
Amortization of negative goodwill .....	1	-	10
Foreign currency exchange gain .....	434	212	4,332
Gain on sales of investment securities .....	99	10	988
Loss on valuation of investment securities .....	(702)	(48)	(7,007)
Write-down of investments in unconsolidated subsidiaries and affiliated companies .....	(33)	(96)	(329)
Gain on disposal of property, plant and equipment .....	(146)	(71)	(1,457)
Technical assistance fee .....	-	550	-
Equity in earnings (losses) of affiliated companies .....	(205)	213	(2,046)
Provision for doubtful accounts .....	17	4	170
Additional retirement payments (Note 10) .....	(41)	(75)	(409)
Loss on violation of the antimonopoly law .....	-	(70)	-
Other, net .....	115	(140)	1,148
	144	991	1,438
<b>Loss before income taxes and minority interests</b> .....	(11,643)	(5,769)	(116,209)
<b>Income taxes (Note 14):</b>			
Current .....	836	877	8,344
Deferred .....	256	6,116	2,555
	1,092	6,993	10,899
<b>Minority interests in income (losses) of consolidated subsidiaries</b> .....	91	(49)	908
<b>Net loss</b> .....	¥ (12,826)	¥ (12,713)	\$ (128,016)
		Yen	U.S.dollars (Note 1)
<b>Per share:</b>			
Net loss .....	¥ (154.02)	¥ (152.40)	\$ (1.54)
Diluted net income .....	-	-	-
Cash dividends applicable to the year .....	5.00	10.00	0.05

See accompanying notes.

# Consolidated Statements of Changes in Net Assets

Takuma Co., Ltd. and Consolidated Subsidiaries

For the years ended March 31, 2008 and 2007

	Millions of Yen										
	Common stock	Capital surplus	Retained earnings	Treasury stock, at cost	Net unrealized holding gain on available-for-sale securities, net of taxes	Unrealized gain (loss) on hedging derivatives, net of taxes	Revaluation reserve for land, net of taxes	Foreign currency translation adjustments	Minority interests in consolidated subsidiaries	Total net assets	
Balance as of March 31, 2006.....	¥ 13,367	¥ 12,409	¥ 41,320	¥ (2,835)	¥ 8,119	¥ -	¥ 270	¥ 54	¥ 3,647	¥ 76,351	
Cash dividends (¥10.00 per share) ..	-	-	(809)	-	-	-	-	-	-	(809)	
Net loss .....	-	-	(12,713)	-	-	-	-	-	-	(12,713)	
Purchase of treasury stock .....	-	-	-	(365)	-	-	-	-	-	(365)	
Sales of treasury stock .....	-	(1)	(2)	23	-	-	-	-	-	20	
Net changes during the year .....	-	-	-	-	69	3	-	414	(66)	420	
Balance as of March 31, 2007.....	¥ 13,367	¥ 12,408	¥ 27,796	¥ (3,177)	¥ 8,188	¥ 3	¥ 270	¥ 468	¥ 3,581	¥ 62,904	
Cash dividends (¥7.50 per share) ....	-	-	(619)	-	-	-	-	-	-	(619)	
Net loss .....	-	-	(12,826)	-	-	-	-	-	-	(12,826)	
Increase due to increase in number of consolidated subsidiaries.....	-	-	33	-	-	-	-	-	-	33	
Purchase of treasury stock .....	-	-	-	(1)	-	-	-	-	-	(1)	
Sales of treasury stock .....	-	0	-	0	-	-	-	-	-	0	
Net changes during the year .....	-	-	-	-	(3,567)	(17)	-	(204)	277	(3,511)	
Balance as of March 31, 2008.....	¥ 13,367	¥ 12,408	¥ 14,384	¥ (3,178)	¥ 4,621	¥ (14)	¥ 270	¥ 264	¥ 3,858	¥ 45,980	

	Thousands of U.S.dollars (Note 1)										
Balance as of March 31, 2007 .....	\$ 133,417	\$ 123,845	\$ 277,433	\$ (31,710)	\$ 81,724	\$ 30	\$ 2,695	\$ 4,671	\$ 35,742	\$ 627,847	
Cash dividends (\$0.07 per share) .....	-	-	(6,178)	-	-	-	-	-	-	(6,178)	
Net loss .....	-	-	(128,016)	-	-	-	-	-	-	(128,016)	
Increase due to increase in number of consolidated subsidiaries.....	-	-	328	-	-	-	-	-	-	328	
Purchase of treasury stock.....	-	-	-	(10)	-	-	-	-	-	(10)	
Sales of treasury stock.....	-	0	-	0	-	-	-	-	-	-	
Net changes during the year .....	-	-	0	-	(35,602)	(170)	-	(2,036)	2,765	(35,043)	
Balance as of March 31, 2008.....	\$ 133,417	\$ 123,845	\$ 143,567	\$ (31,720)	\$ 46,122	\$ (140)	\$ 2,695	\$ 2,635	\$ 38,507	\$ 458,928	

See accompanying notes.

# Consolidated Statements of Cash Flows

Takuma Co., Ltd. and Consolidated Subsidiaries  
For the years ended March 31, 2008 and 2007

	Millions of Yen		Thousands of U.S.dollars (Note 1)
	2008	2007	2008
<b>Cash flows from operating activities:</b>			
Loss before income taxes and minority interests .....	¥ (11,643)	¥ (5,769)	\$ (116,209)
Adjustments to reconcile loss before income taxes and minority interests to net cash provided by (used in) operating activities:			
Depreciation .....	1,194	1,023	11,917
Amortization of goodwill .....	287	339	2,865
Write-down of investments in unconsolidated subsidiaries and affiliated companies ..	33	96	329
Loss on disposal of property, plant and equipment.....	146	71	1,457
Gain on sales of investment securities .....	(99)	(10)	(988)
Loss on valuation of investment securities .....	702	48	7,007
Additional retirement payments .....	41	75	409
Decrease in allowance for doubtful accounts.....	(7)	(33)	(70)
Decrease in allowance for losses on sales contracts .....	4,946	(1,806)	49,366
Decrease in pension benefit obligation .....	(4)	(408)	(40)
Interest and dividend income .....	(729)	(544)	(7,276)
Interest expense .....	124	42	1,238
Equity in earnings (losses) of affiliated companies .....	205	(213)	2,046
Net decrease in notes and accounts receivable and advance received .....	11,373	1,448	113,514
Decrease (increase) in inventories .....	(457)	1,627	(4,561)
Decrease (increase) in consumption tax receivable .....	(16)	282	(160)
Increase (decrease) in other current assets.....	47	(341)	469
Net decrease in notes and accounts payable and advance money .....	(5,834)	(2,581)	(58,229)
Increase (decrease) in consumption tax payable .....	(183)	364	(1,827)
Increase in other current liabilities .....	760	250	7,586
Loss on violation of the antimonopoly law .....	-	70	-
Other .....	17	256	170
Subtotal .....	903	(5,714)	9,013
Interest and dividend received .....	840	631	8,384
Interest paid .....	(103)	(37)	(1,028)
Income taxes paid .....	(564)	(1,385)	(5,629)
Additional retirement payments .....	(41)	(75)	(409)
Net cash provided by (used in) operating activities .....	1,035	(6,580)	(10,331)
<b>Cash flows from investing activities:</b>			
Net decrease (increase) in time deposits .....	(1,183)	2,202	11,808
Purchase of property, plant and equipment .....	(1,089)	(1,253)	(10,869)
Sales of property, plant and equipment .....	272	23	2,715
Purchase of intangible fixed assets .....	(128)	(244)	(1,278)
Purchase of investment securities .....	(128)	(289)	(1,278)
Sales of investment securities .....	1,250	77	12,476
Investments in unconsolidated subsidiaries and affiliated companies .....	-	(145)	-
Disbursement for loans receivable .....	(1,273)	(1,699)	(12,706)
Collection of loans receivable .....	306	1,272	3,054
Other .....	494	3	4,931
Net cash used in investing activities .....	(1,479)	(53)	(14,763)
<b>Cash flows from financing activities:</b>			
Net increase in short-term bank loans .....	585	4,584	5,839
Proceeds from long-term debt .....	23	-	230
Payment of long-term debt .....	(151)	(214)	(1,507)
Purchase of treasury stock .....	(1)	(366)	(10)
Sales of treasury stock .....	1	43	10
Payment of cash dividends to the Company's shareholders .....	(619)	(809)	(6,178)
Payment of cash dividends to minority interests .....	(24)	(29)	(240)
Net cash provided by (used in) financing activities .....	(186)	3,209	(1,856)
Effect of exchange rate changes on cash and cash equivalents .....	(171)	343	(1,707)
Net decrease in cash and cash equivalents .....	(801)	(3,081)	(7,995)
<b>Cash and cash equivalents at beginning of year (Note 4) .....</b>	<b>24,567</b>	<b>27,648</b>	<b>245,204</b>
Cash and cash equivalents of newly consolidated subsidiary .....	172	-	1,717
<b>Cash and cash equivalents at end of year (Note 4) .....</b>	<b>¥ 23,938</b>	<b>¥ 24,567</b>	<b>\$ 238,926</b>

See accompanying notes.

# Notes to Consolidated Financial Statements

## Takuma Co., Ltd. and Consolidated Subsidiaries

### 1. Basis of presenting 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.

The accounts of overseas subsidiaries are based on their accounting records maintained in conformity with generally accepted accounting principles prevailing in the respective countries of domicile. The accompanying consolidated financial statements have been restructured and translated into English (with some expanded descriptions and the inclusion of consolidated statements of changes in net assets for 2006) from the consolidated financial statements of Takuma Co., Ltd. (the "Company") prepared in accordance with Japanese GAAP and filed with the appropriate Local Finance Bureau of the Ministry of Finance as required by the Securities and Exchange Law. Some supplementary information included in the statutory Japanese language consolidated financial statements, but not required for fair presentation, is not presented in the accompanying consolidated financial statements.

The translation of the Japanese yen amounts into U.S. dollars is included solely for the convenience of readers outside Japan, using the prevailing exchange rate at March 31, 2008, which was ¥100.19 to U.S. \$1. The convenience translations should not be construed as representations that the Japanese yen amounts have been, could have been, or could in the future be, converted into U.S. dollars at this or any other rate of exchange.

### 2. Summary of significant accounting policies

#### (a) Principles of consolidation

The consolidated financial statements include the accounts of the Company and its 18 significant subsidiaries (the "Companies"). All significant inter-company transactions and unrealized profits among the Companies have been eliminated in consolidation. Investments in certain significant affiliates, which the Company and its subsidiaries are able to influence, in a material degree, their financial and operating decision-making, other than consolidated subsidiaries, are accounted for by the equity method after the elimination of unrealized inter-company profits. 8 year straight line depreciation has been applied for goodwill depreciation while amount-wise depreciation on small amounts is selected in the year of occurrence, 5 year straight line depreciation for negative goodwill depreciation too. Accounting standard of address country has been applied for goodwill of depreciation consolidated overseas subsidiary. Investments in the remaining unconsolidated subsidiaries and affiliated companies are not accounted for by the equity method because of the immaterial effect on the consolidated financial statements. Therefore, such investments are carried at cost, adjusted for any substantial and non-recoverable decline in value, and income from those unconsolidated subsidiaries and affiliated companies is recognized only when the Companies receive dividends therefrom.

#### (b) Foreign currency translation

Revenue and expense are translated at the rates of exchange prevailing when transactions are made. Assets and liabilities denominated in foreign currencies are generally translated into each reporting currency at the rate of foreign exchange prevailing at the balance sheet dates and the resulting translation gains or losses are included in earnings.

Financial statements of a consolidated overseas subsidiary are translated into Japanese yen at the year-end rate, except that net assets accounts are translated at historical rates and income statement items resulting from transactions with the Company at the rates used by the Company. The resulting translation adjustments are shown as "Foreign currency translation adjustments", a separate component of net assets.

#### (c) Cash and cash equivalents

In preparing the consolidated statements of cash flows, cash and cash equivalents include cash on hand, readily-available deposits and short-term investments with maturities of not exceeding three months from the date of acquisition which have high liquidity and low risk of price fluctuation.

#### (d) Securities

Equity securities issued by subsidiaries and affiliated companies which are not consolidated or accounted for using the equity method are stated at moving-average cost. Available-for-sale securities with available fair market value are stated at fair market value, and unrealized gains and losses on these securities are reported, net of applicable income taxes, as a separate component of net assets. Realized gains and losses on sale of such securities are computed using moving-average cost. Other securities with no available fair market value are stated at moving-average cost.

If the market value of equity securities issued by unconsolidated subsidiaries and affiliated companies, and available-for-sale securities declines significantly, such securities are stated at fair market value and the difference between fair market value and the carrying amount is recognized as loss in the period of the decline. If the fair market value of securities is not readily available, such securities should be written down to net asset value with a corresponding charge in the income statement in the event net asset value declines significantly. In these cases, such fair market value or the net asset value will be the carrying amount of the securities at the beginning of the next year.

#### (e) Allowance for doubtful accounts

The Company and its domestic subsidiaries adopt the policy of providing the allowance for doubtful accounts by estimating individually uncollectible amounts and by applying percentage based on collection experience to the remaining.

#### (f) Inventories

Work in process is stated at cost as determined by the identified cost method. Materials and supplies are stated at cost by the average method.

(g) Property, plant and equipment

Property, plant and equipment are depreciated using the declining balance method over the estimated useful lives of the assets. However, buildings acquired after March 31, 1998, are depreciated using the straight-line method.

The range of useful lives is principally from 3 to 60 years for buildings and structures and from 2 to 20 years for machinery, equipment and other. Maintenance and repairs, including minor renewals and improvements, are charged to income as incurred.

Effective from the year ended March 31, 2008, the Company and its domestic consolidated subsidiaries changed the depreciation method for property, plant and equipment acquired on and after April 1, 2007 in accordance with the revision of Japanese Corporate Tax Law.

Due to this change, operating loss and loss before income taxes and minority interests have increased by ¥39 million (\$389 thousand) respectively.

The effect on segment information of this change is disclosed in Note 15.

Pursuant to an amendment to the Japanese Corporate Tax Law, effective from the year ended March 31, 2008, the Company and its domestic consolidated subsidiaries have started to depreciate the remaining balance of the assets over a 5 year period using straight-line method from the following fiscal year after the book value of the assets decreases to 5% of the acquisition costs under the method of depreciation based on the pre-revision Tax law.

Due to this change, operating loss and loss before income taxes and minority interests have increased by ¥41 million (\$409 thousand) respectively.

The effect on segment information of this change is disclosed in Note 15.

(h) Accounting for leases

Finance lease which do not transfer ownership of the leased assets to the lessee, are accounted for in the same manner as operating leases.

(i) Allowance for losses on sales contracts

Among sales orders of the Companies on hand at balance sheet date, for projects in which the estimated cost is expected to exceed the amount of the sales order by a wide margin, allowance for losses on sales contracts is recognized at the estimated aggregate amount of such losses.

(j) Allowance for employees' retirement benefits

The Companies provide two types of post-employment benefit plans, unfunded lump-sum payment plans and funded non-contributory pension plans. Under which all eligible employees are entitled to benefits based on the level of wages and salaries at the time of retirement or termination, length of service and certain other factors. The Companies provided allowance for employees' severance and retirement benefits as of March 31, 2008 and 2007 based on the estimated amounts of projected benefit obligation and the fair value of the plan assets at the balance sheet dates.

Actuarial gains or losses are recognized in expense using straight-line method over 10 years commencing with the following period. Prior service costs are recognized in expense using straight-line method over 10 years from when incurred.

(k) Allowance for directors', executive officers', and corporate auditors' retirement benefits

Directors, executive officers, and corporate auditors are generally entitled to receive retirement benefits based on the Companies' internal rules. The Companies provided allowance for directors', executive officers', and corporate auditors' retirement benefits computed on the assumption that all directors, executive officers, and corporate auditors retired at the balance sheet date.

Full amount of payment required under internal regulations had so far been earmarked in preparation for retirement benefit payment for directors (including operating officers). However, at the board of directors meeting held on May 17, 2007 the Company abolished the directors' retirement allowance system, and the ordinary shareholder general meeting held on June 28, 2007 resolved on cut-off payment of directors' retirement allowance in accordance with the tenure of office up to the shareholder general meeting closing.

Accordingly, the amount ¥304 million (\$3,034 thousand) required for directors' retirement allowance payment is recorded as "other" of liabilities.

(l) Revenue recognition

Net sales from contracts are recognized at the time the contracts are completed, except that net sales for projects with construction lasting more than one year and contract amount over ¥1,000 million are recognized using the percentage-of-completion method.

Net sales and gross profit recognized on the percentage-of-completion method for the years ended March 31, 2008 and 2007 were as follows:

	Millions of Yen		Thousands of U.S.dollars
	2008	2007	2008
Net sales	¥ 29,001	¥ 24,874	\$ 289,460
Gross loss	(9,999)	(518)	(99,800)

(m) Income taxes

The Companies are subject to corporation tax, inhabitants tax and enterprise tax, which are based on taxable income. The Companies recognize the tax effects of the temporary differences between the carrying amounts of assets and liabilities for tax and financial reporting. The provision for income taxes is computed based on the pretax income of each of the Companies, with certain adjustments required for tax purposes. The asset and liability approach is used to recognize deferred tax assets and liabilities for the expected future tax consequences of temporary differences.

(n) Net income and cash dividends per share

Net income per share is computed based on the weighted average number of common stock outstanding during each period. Diluted net income per share is computed by the assumption that all convertible bonds were converted into common stock at the beginning of each period.

Cash dividends per share represent interim dividends declared by the Board of Directors in each year and year-end dividends approved by the shareholders at the annual meeting held subsequent to the end of the fiscal year.

(o) Derivatives and hedge accounting

The Companies generally state derivative financial instruments at fair value and recognize changes in the fair value as gains or losses unless derivative financial instruments are used for hedging purposes.

If derivative financial instruments are used as hedges and meet

certain hedging criteria, the Companies generally defer recognition of gains or losses resulting from changes in fair value of derivative financial instruments until the related gains or losses on the hedged items are recognized.

The Company and its consolidated subsidiaries use currency forward contract to hedge its accounts receivable and accounts payable denominated in foreign currencies against foreign exchange risk that comes from foreign currency transactions (mainly U.S. dollars).

And consolidated subsidiaries uses interest rate swaps to hedge the risk of interest rate on bank loans. Consolidated subsidiaries adopts the exception processing about interest rate swaps because it meets the requirement.

(p) Valuation of assets and liabilities of consolidated subsidiaries  
In the elimination of investments in subsidiaries, the assets and liabilities of the subsidiaries, including the portion attributable to minority shareholders, are evaluated using the fair value at the time the Company acquired control of the respective subsidiaries.

(q) Reclassifications

Certain prior year amounts have been reclassified to conform to 2008 presentation. Also, as described in Note 3, the consolidated balance sheet for 2007 has been adapted to conform to new presentation rules of 2008.

### 3. Changes in accounting policies

Accounting standard for presentation of net assets in the balance sheet

Effective from the year ended March 31, 2007, the Companies adopted the new accounting standard, "Accounting Standard for Presentation of Net Assets in the Balance Sheet" (Statement No. 5 issued by the Accounting Standards Board of Japan on December 9, 2005), and the implementation guidance for the accounting standard for presentation of net assets in the balance sheet (the Financial Accounting Standard Implementation Guidance No. 8 issued by the Accounting Standards Board of Japan on December 9, 2005), (collectively, "the New Accounting Standards").

The consolidated balance sheet as of March 31, 2007 prepared in accordance with the New Accounting Standards comprises three sections, which are the assets, liabilities, and net assets sections. Previously, the balance sheet comprised the assets, liabilities, minority interests, as applicable, and the shareholders' equity sections.

Under the New Accounting Standards, the following items are presented differently at March 31, 2007 compared to previous presentation. The net assets section includes unrealized gains/losses on hedging derivatives, net of taxes. Under the previous presentation rules, unrealized gains/losses on hedging derivatives were included in the assets or liabilities section without considering the related income tax effects. Minority interests are included in the net assets section at March 31, 2007. Under the previous presentation rules, companies were required to present minority interests in the liabilities section and between the non-current liabilities and the shareholders' equity sections.

The consolidated balance sheet as of March 31, 2006 has been restated to conform to the 2007 presentation.

The adoption of the New Accounting Standards had no impacts on the consolidated statement of income for the year ended March 31, 2007. Also, if the New Accounting Standards had not been adopted at March 31, 2007, the shareholders' equity amounting to ¥59,320 million (\$502,499 thousand) would have been presented.

Accounting standard for statement of changes in net assets

Effective from the year ended March 31, 2007, the Company and its consolidated subsidiaries adopted the new accounting standard, "Accounting Standard for Statement of Changes in Net Assets" (Statement No. 6 issued by the Accounting Standards Board of Japan on December 27, 2005), and the implementation guidance for the accounting standard for statement of changes in net assets (the Financial Accounting Standard Implementation Guidance No. 9 issued by the Accounting Standards Board of Japan on December 27, 2005), (collectively, "the Additional New Accounting Standards").

Accordingly, the Company prepared the statements of changes in net assets for the year ended March 31, 2007 in accordance with the Additional New Accounting Standards. Also, the Company voluntarily prepared the consolidated statement of changes in net assets for 2006 in accordance with the Additional New Accounting Standards. Previously, consolidated statements of shareholders' equity were prepared for the purpose of inclusion in the consolidated financial statements although such statements were not required under Japanese GAAP.

Change in the accounting policy concerning the rental income from real estate

The rental income from real estate was accounted for amount of sales previously. Effective from the fiscal year ended March 31, 2007, however, the Companies changed its accounting policy so that such income should be included in the other income and that the cost incurred for such income that was included in the cost of sales should be included in the other expenses.

The reason for this change is that our real estate business has become no profit-oriented business anymore because a part of our fixed assets concerned was sold out in the fiscal year ended March 31, 2006 and because of other smaller matters. Due to this change, the sales amount, cost of sales and gross profit on sales have decreased by ¥61 million (\$609 thousand), ¥30 million (\$299 thousand) and ¥31 million (\$309 thousand) respectively, and other income has increased by ¥31 million (\$309 thousand) respectively, from those comparable figures accounted in accordance with the conventional accounting policy. But this change does not affect the loss before income taxes and minority interests.

The effect on segment information of this change is disclosed in Note 15.

Change in the accounting policy concerning the royalty revenue

Royalty revenue the Company receives from technology receivers had so far been included in "technical assistance fee" of other income. This was revised for inclusion in net sales effective from the current business year.

The reason for this change is to present the Company's operating result more appropriately. This is because the importance of this royalty revenue has increased as a result of promotion of technology receiver exploitation under the policy of implementing the operating strategies of providing technology and securing fixed profit as royalty in overseas business.

Due to this change, as compared with the previous method, net sales and gross profit have increased by ¥683 (\$6,817 thousand) million, and operating loss has decreased by the same amount with no effect on loss before income taxes and minority interests.

The effect on segment information of this change is disclosed in Note 15.

#### 4. Amounts of cash and cash equivalents

Amounts of cash and cash equivalents as of March 31, 2008 and 2007 were reconciled with cash and time deposits as follows:

	Millions of Yen		Thousands of U.S.dollars
	2008	2007	2008
Cash and time deposits.....	¥ 26,434	¥ 25,901	\$ 263,839
Time deposits with maturities exceeding three months from the date of acquisition.....	(2,526)	(1,364)	(25,212)
Short-term highly liquid investments with maturities not exceeding three months.....	30	30	299
Total: Cash and cash equivalents.....	¥ 23,938	¥ 24,567	\$ 238,926

#### 5. Securities

(a) Acquisition costs, book values of available-for-sale securities with available fair values as of March 31, 2008 and 2007 were as follows:

As of March 31, 2008	Millions of Yen		
	Acquisition cost	Book value	Difference
Securities with book values exceeding acquisition costs:			
Equity securities .....	¥ 7,612	¥ 15,788	¥ 8,176
Debt securities .....	27	27	0
Others .....	700	743	43
Subtotal .....	8,339	16,558	8,219
Securities with book values not exceeding acquisition costs:			
Equity securities .....	1,830	1,449	(381)
Others .....	162	143	(19)
Subtotal .....	1,992	1,592	(400)
Total .....	¥ 10,331	¥ 18,150	¥ 7,819

As of March 31, 2007	Millions of Yen		
	Acquisition cost	Book value	Difference
Securities with book values exceeding acquisition costs:			
Equity securities .....	¥ 9,193	¥ 23,048	¥ 13,855
Debt securities .....	26	27	1
Others .....	712	845	133
Subtotal .....	9,931	23,920	13,989
Securities with book values not exceeding acquisition costs:			
Equity securities .....	698	601	(97)
Others .....	151	142	(9)
Subtotal .....	849	743	(106)
Total .....	¥ 10,780	¥ 24,663	¥ 13,883

As of March 31, 2008	Thousands of U.S.dollars		
	Acquisition cost	Book value	Difference
Securities with book values exceeding acquisition costs:			
Equity securities .....	\$ 75,976	\$ 157,581	\$ 81,605
Debt securities .....	269	269	0
Others .....	6,987	7,416	429
Subtotal .....	83,232	165,266	82,034
Securities with book values not exceeding acquisition costs:			
Equity securities .....	18,265	14,463	(3,802)
Others .....	1,617	1,427	(190)
Subtotal .....	19,882	15,890	(3,992)
Total .....	\$ 103,114	\$ 181,156	\$ 78,042

(b) Book values of available-for-sale securities with no fair values as of March 31, 2008 and 2007 were as follows:

	Millions of Yen		Thousands of U.S.dollars
	2008	2007	2008
Non-listed equity securities .....	¥ 1,271	¥ 2,200	\$ 12,686
Corporate bonds .....	100	-	998
Debt security investment trust which equivalent to cash .....	30	30	299

(c) Available-for-sale securities sold for the years ended March 31, 2008 and 2007 were as follows:

	Millions of Yen		Thousands of U.S.dollars
	2008	2007	2008
Total sales amount .....	¥ 1,250	¥ 77	\$ 12,476
Gains .....	126	16	1,257
Losses .....	27	6	269

(d) Maturities of available-for-sale securities as of March 31, 2008 and 2007 were as follows:

	Millions of Yen			
	Within 1 year	Over 1 year but within 5 years	Over 5 years but within 10 years	Over 10 years
<u>As of March 31, 2008</u>				
Debt securities .....	¥ -	¥ 27	¥ -	¥ -
Corporate bonds .....	-	100	-	-
Others .....	-	-	-	-
Total .....	¥ -	¥ 127	¥ -	¥ -

	Millions of Yen			
	Within 1 year	Over 1 year but within 5 years	Over 5 years but within 10 years	Over 10 years
<u>As of March 31, 2007</u>				
Debt securities .....	¥ -	¥ 27	¥ -	¥ -
Others .....	-	-	-	-
Total .....	¥ -	¥ 27	¥ -	¥ -

	Thousands of U.S.dollars			
	Within 1 year	Over 1 year but within 5 years	Over 5 years but within 10 years	Over 10 years
<u>As of March 31, 2008</u>				
Debt securities .....	\$ -	\$ 269	\$ -	\$ -
Corporate bonds .....	-	998	-	-
Others .....	-	-	-	-
Total .....	\$ -	\$ 1,267	\$ -	\$ -

## 6. Lease

(a) Finance lease

The Companies are obligated under several non-cancellable finance leases without transfer of ownership. Total expenses for non-capitalized finance leases, which are accounted for in the same manner as operating leases, for the years ended March 31, 2008 and 2007 were ¥202 million (\$2,016 thousand) and ¥188 million, respectively.

If such finance leases were capitalized including interest as of March 31, 2008 and 2007, they would be recorded in the consolidated balance sheets as follows:

	Millions of Yen					
	2008			2007		
	Acquisition cost	Accumulated depreciation	Book value	Acquisition cost	Accumulated depreciation	Book value
Machinery and equipment .....	¥ 884	¥ 519	¥ 365	¥ 808	¥ 402	¥ 406
Other assets .....	122	95	27	112	69	43
Total .....	¥ 1,006	¥ 614	¥ 392	¥ 920	¥ 471	¥ 449

Thousands of U.S.dollars

	2008		
	Acquisition cost	Accumulated depreciation	Book value
Machinery and equipment .....	\$ 8,823	\$ 5,180	\$ 3,643
Other assets .....	1,218	948	270
<b>Total .....</b>	<b>\$ 10,041</b>	<b>\$ 6,128</b>	<b>\$ 3,913</b>

If depreciation expense on such finance leases was incurred for the years ended March 31, 2008 and 2007, the amounts would be ¥202 million (\$2,016 thousand) and ¥188 million, respectively.

The scheduled future payments of such lease obligations, including interest, as of March 31, 2008 and 2007, were as follows:

	Millions of Yen		Thousands of U.S.dollars
	2008	2007	2008
Due within one year .....	¥ 147	¥ 166	\$ 1,467
Due after one year .....	245	283	2,446
<b>Total .....</b>	<b>¥ 392</b>	<b>¥ 449</b>	<b>\$ 3,913</b>

#### 7. Pledged assets

The following assets were pledged to secure short-term bank loans, long-term debt, notes discounted and fulfilment of a contract as of March 31, 2008 and 2007:

	Millions of Yen		Thousands of U.S.dollars
	2008	2007	2008
Land .....	¥ 1,244	¥ 1,087	\$ 12,416
Buildings and structures .....	1,154	342	11,518
Long-term loans receivable .....	-	160	-
Securities .....	14	69	140
Time deposits as construction contract guarantee .....	162	60	1,617
Cash and time deposits .....	104	-	1,038
Others .....	-	2	-
<b>Total .....</b>	<b>¥ 2,678</b>	<b>¥ 1,720</b>	<b>\$ 26,729</b>

#### 8. Revaluation reserve for land

Pursuant to “Law concerning Revaluation Reserve for Land” (the Law), enacted March 31, 1998, and partial revision to the Law on March 31, 2001, land held by one of the consolidated subsidiaries has been revalued. As the result, the applicable income tax portion of related unrealized gain was reported “Deferred tax liability for revaluation reserve for land” in liabilities section, and the related unrealized gain (net of applicable income tax) was recognized in “Minority interests in consolidated subsidiaries” and “Revaluation reserve for land” in Net assets section.

	Millions of Yen
Book value of land before revaluation .....	¥ 259
Book value of land after revaluation .....	826
Date of revaluation March 31, 2002	

As of March 31, 2008, the fair market value of land was below the book value of land after revaluation by ¥50 million (\$499 thousand).

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

Short-term bank loans outstanding were generally represented by bank over drafts bearing interest at average rates of 1.3% and 1.1% per annum as of March 31, 2008 and 2007, respectively.

Long-term debt as of March 31, 2008 and 2007 were as follows:

	Millions of Yen		Thousands of U.S.dollars
	2008	2007	2008
Loans from banks and other financial institutions due 2009 interest at rates of 2.3% to 4.5% per annum in 2008 and 2007:			
Secured .....	¥ 745	¥ 122	\$ 7,436
Unsecured .....	127	1	1,268
	<b>872</b>	123	<b>8,704</b>
Less: Current portion.....	(78)	(99)	(779)
	<b>¥ 794</b>	<b>¥ 24</b>	<b>\$ 7,925</b>

The aggregate annual maturities of long-term debt as of March 31, 2008 were summarized below:

Years ending March 31,	Millions of Yen	Thousands of U.S.dollars
2009 .....	¥ 78	\$ 779
2010 .....	55	549
2011 .....	80	798
2012 .....	59	589
2013 .....	60	599
2014 and thereafter .....	540	5,390

### 10. Allowance for employees' retirement benefits

The liabilities for severance and retirement benefits included in the liabilities section of the consolidated balance sheets as of March 31, 2008 and 2007 consist of the following:

	Millions of Yen		Thousands of U.S.dollars
	2008	2007	2008
Projected benefit obligation.....	¥ 12,207	¥ 12,867	\$ 121,839
Fair value of plan assets .....	(7,487)	(8,108)	(74,728)
Unfunded projected benefit obligation .....	<b>4,720</b>	4,759	<b>47,111</b>
Unrecognized prior service cost .....	<b>1,562</b>	970	<b>15,590</b>
Less: unrecognized actuarial differences .....	<b>(908)</b>	(332)	<b>(9,063)</b>
Prepaid pension expenses .....	-	20	-
Allowance for employees' retirement benefits.....	<b>¥ 5,374</b>	<b>¥ 5,417</b>	<b>\$ 53,638</b>

Included in the consolidated statements of operations for the years ended March 31, 2008 and 2007 were severance and retirement benefit expenses comprised of the following:

	Millions of Yen		Thousands of U.S.dollars
	2008	2007	2008
Service costs – benefits earned during the year.....	¥ 798	¥ 704	\$ 7,965
Interest cost on projected benefit obligation .....	225	209	2,246
Expected return on plan assets .....	(271)	(259)	(2,705)
Amortization of actuarial differences .....	136	125	1,357
Amortization of prior service cost .....	(140)	(140)	(1,397)
Additional retirement payments and others .....	232	75	2,316
Employees' retirement benefit expenses .....	<b>¥ 980</b>	<b>¥ 714</b>	<b>\$ 9,782</b>

The discount rates used by the Companies are mainly 2.0% for the years ended December 31, 2008 and 2007, respectively. The rates of expected return on plan assets used by the Companies are mainly 4.0% for the year ended December 31, 2008 and 2007, respectively. The estimated amount of all retirement benefits to be paid at the future retirement date is allocated equally to each service year using the estimated number of total service years. Prior service costs are recognized in expense using the straight-line method over 10 years from when incurred. Actuarial gains or losses are recognized in expense using the straight-line method over 10 years commencing with the succeeding period.

### **11. Contingent liabilities**

The Companies were contingently liable under guarantees for bank loans of affiliated companies and other companies as of March 31, 2008 and 2007 amounting to ¥2,569 million (\$25,641 thousand) and ¥2,319 million, respectively.

Also, the Companies were contingently liable for notes discounted as of March 31, 2008 and 2007 amounting to ¥10 million (\$100 thousand) and ¥482 million, respectively.

On August 13, 1999 the Japan Fair Trade Commission (JFTC) issued a cease and desist order to the Company and four other companies for activities related to the construction of waste incineration plants that were determined by the JFTC to be in violation of the Japanese Antimonopoly Act.

Although the Company objected to the cease and desist order and motioned for its withdrawal during subsequent JFTC hearings, the JFTC ruled on June 27, 2006 that the order stood. The Company objected to this ruling and filed an appeal for its reversal with the Tokyo High Court on July 27, 2006, a decision on which is currently pending.

Further to the above ruling and in accordance with Section 48-2 (1) of the Act on Prohibition of Private Monopolization and Maintenance of Fair Trade (before amendment), the JFTC ordered surcharge payments to be made by the Company and four other companies on March 23, 2007, with the amount attributable to the Company amounting to ¥4,703 million (\$46,941 thousand).

The Company objected to the surcharge payment order and filed a request with the JFTC on April 17, 2007 for a hearing to be arranged. Pursuant to Section 49-3 of the Act on Prohibition of Private Monopolization and Maintenance of Fair Trade (before amendment), the surcharge payment order has lost its binding power because the arrangements commenced.

On March 20, 2007 the Company was ordered by the Tokyo District Court to pay damages of ¥4,410 million (\$44,016 thousand) to the Tokyo Metropolitan Government in a lawsuit filed by the residents of Tokyo on July 14, 2000 in which the company was accused of violating the Japanese Antimonopoly Act during the bidding stage of a tender awarded to the company in 1994 by the Tokyo Metropolitan Government to build a waste incineration plant.

Additional damages will also be applied to the above payment at a rate of 5% per annum for the period dating back to July 14, 1994 and continuing until payment is received.

The Company objected to the ruling and filed an appeal for its reversal on April 4, 2007, a decision on which is currently pending.

### **12. Net assets**

As described in Note 3, net assets section includes shareholders' equity, accumulated gains (losses) from valuation and translation adjustments, and minority interests.

The Japanese Corporate Law ("the Law") became effective on May 1, 2006, replacing the Japanese Commercial Code ("the Code"). The Law is generally applicable to events and transactions occurring after April 30, 2006 and for fiscal years ending after that date.

Under Japanese laws and regulations, the entire amount paid for new shares is required to be designated as common stock. However, a company may, by a resolution of the Board of Directors, designate an amount not exceeding one-half of the price of the new shares as additional paid-in capital, which is included in capital surplus.

Under the Law, in cases where a dividend distribution of surplus is made, the smaller of an amount equal to 10% of the dividend or the excess, if any, of 25% of common stock over the total of additional paid-in-capital and legal earnings reserve must be set aside as additional paid-in-capital or legal earnings reserve. Legal earnings reserve is included in retained earnings in the accompanying consolidated balance sheets.

Under the Code, companies were required to set aside an amount equal to at least 10% of the aggregate amount of cash dividends and other cash appropriations as legal earnings reserve until the total of legal earnings reserve and additional paid-in capital equalled 25% of common stock.

Under the Code, legal earnings reserve and additional paid-in capital could be used to eliminate or reduce a deficit by a resolution of the shareholders' meeting or could be capitalized by a resolution of the Board of Directors. Under the Law, both of these appropriations generally require a resolution of the shareholders' meeting.

Additional paid-in capital and legal earnings reserve may not be distributed as dividends. Under the Code, however, on condition that the total amount of legal earnings reserve and additional paid-in capital remained equal to or exceeded 25% of common stock, they were available for distribution by resolution of the shareholders' meeting. Under the Law, all additional paid-in-capital and all legal earnings reserve may be transferred to other capital surplus and other retained earnings, respectively, which are potentially available for dividends.

The maximum amount that the Company can distribute as dividends is calculated based on the non-consolidated financial statements of the Company in accordance with Japanese laws and regulations.

The appropriation of retained earnings with respect to a given financial year is made by resolution of the shareholders at a general meeting held subsequent to the close of such financial year. The accounts for that year do not, therefore, reflect such appropriations. See Note 17.

### 13. Research and development expenses

Research and development expense is charged to income as incurred. Such amount included in cost of sales, and selling, general and administrative expenses for the years ended March 31, 2008 and 2007 were ¥767 million (\$7,655 thousand) and ¥1,127 million, respectively.

### 14. Income taxes

The Companies are subject to a number of taxes based on income, which, in the aggregate, indicate statutory rates in Japan of approximately 40.6% for the years ended March 31, 2008 and 2007.

The information of the significant differences between the statutory tax rate and the Companies' effective tax rate for financial statement is not provided for the years ended March 31, 2008 and 2007 because of the loss before income taxes and minority interests for the years.

Components of the Companies' deferred tax assets and liabilities as of March 31, 2008 and 2007 were as follows:

	Millions of Yen		Thousands of U.S.dollars
	2008	2007	2008
Deferred tax assets:			
Allowance for employees' retirement benefits .....	¥ 2,171	¥ 2,158	\$ 21,669
Allowance for losses on sales contracts .....	1,773	202	17,696
Accrued cost of sales .....	773	1,011	7,715
Unrealized gain on sale of fixed assets .....	1,199	1,199	11,967
Accrued bonuses to employees .....	698	750	6,967
Operating loss carryforward for tax purposes .....	10,306	6,393	102,864
Other .....	1,789	1,459	17,856
Total deferred tax assets .....	18,709	13,172	186,734
Valuation allowance .....	(16,024)	(10,225)	(159,936)
Net deferred tax assets .....	¥ 2,685	¥ 2,947	\$ 26,798
Deferred tax liabilities:			
Net unrealized holding gains on available-for-sale securities .....	(3,176)	(5,679)	(31,700)
Valuation difference in land of consolidated subsidiary .....	(161)	(160)	(1,607)
Net unrealized gains on revaluated land .....	(279)	(279)	(2,785)
Other .....	(449)	(436)	(4,481)
Total deferred tax liabilities .....	(4,065)	(6,554)	(40,573)
Net deferred tax assets .....	¥ (1,380)	¥ 3,607	\$ (13,775)

### 15. Segment information

#### (a) Business segment information

Business segment information for the years ended March 31, 2008 and 2007 were as follows:

Year ended March 31, 2008	Millions of Yen						
	Domestic Environment and Energy	Overseas Environment and Energy	Package Boiler	Other	Total	Elimination and Corporate	Consolidated
Sales:							
Outside customers .....	¥ 51,899	¥ 19,152	¥ 19,960	¥ 14,601	¥ 105,612	¥ -	¥ 105,612
Intersegment .....	21	89	478	103	691	(691)	-
Total .....	51,920	19,241	20,438	14,704	106,303	(691)	105,612
Operating expenses .....	49,454	32,101	20,505	14,356	116,416	983	117,399
Operating income (loss) .....	¥ 2,466	¥ (12,860)	¥ (67)	¥ 348	¥ (10,113)	¥ (1,674)	¥ (11,787)
Identifiable assets, depreciation expense and capital expenditure:							
Assets .....	¥ 39,541	¥ 7,769	¥ 15,881	¥ 12,283	¥ 75,474	¥ 37,153	¥ 112,627
Depreciation .....	734	177	505	65	1,481	-	1,481
Capital expenditure .....	198	44	563	30	835	-	835

Millions of Yen

Year ended March 31, 2007	Domestic Environment and Energy	Overseas Environment and Energy	Package Boiler	Other	Total	Elimination and Corporate	Consolidated
Sales:							
Outside customers .....	¥ 51,851	¥ 12,531	¥ 20,325	¥14,041	¥ 98,748	¥ -	¥ 98,748
Intersegment .....	43	96	704	80	923	(923)	-
Total .....	51,894	12,627	21,029	14,121	99,671	(923)	98,748
Operating expenses .....	52,971	15,844	21,900	13,765	104,480	1,028	105,508
Operating income (loss) .....	<u>¥ (1,077)</u>	<u>¥ (3,217)</u>	<u>¥ (871)</u>	<u>¥ 356</u>	<u>¥ (4,809)</u>	<u>¥ (1,951)</u>	<u>¥ (6,760)</u>
Identifiable assets, depreciation expense and capital expenditure:							
Assets .....	¥ 47,159	¥ 10,185	¥ 18,197	¥11,648	¥ 87,189	¥ 41,644	¥128,833
Depreciation .....	740	169	378	78	1,365	(3)	1,362
Capital expenditure .....	325	141	1,031	23	1,520	-	1,520

Thousands of U.S.dollars

Year ended March 31, 2008	Domestic Environment and Energy	Overseas Environment and Energy	Package Boiler	Other	Total	Elimination and Corporate	Consolidated
Sales:							
Outside customers .....	\$ 518,006	\$ 191,157	\$199,221	\$145,733	\$1,054,117	\$ -	\$1,054,117
Intersegment .....	210	888	4,771	1,028	6,897	(6,897)	-
Total .....	518,216	192,045	203,992	146,761	1,061,014	(6,897)	1,054,117
Operating expenses .....	493,602	320,402	204,661	143,288	1,161,953	9,811	1,171,764
Operating income (loss) .....	<u>\$ 24,614</u>	<u>\$(128,357)</u>	<u>\$ (669)</u>	<u>\$ 3,473</u>	<u>\$ (100,939)</u>	<u>\$(16,708)</u>	<u>\$ (117,647)</u>
Identifiable assets, depreciation expense and capital expenditure:							
Assets .....	\$ 394,660	\$ 77,543	\$158,509	\$122,597	\$ 753,309	\$370,825	\$1,124,134
Depreciation .....	7,326	1,767	5,040	649	14,782	-	14,782
Capital expenditure .....	1,976	439	5,619	299	8,333	-	8,333

Corporate expenses included in operating expenses and not allocated to segment in 2008 and 2007 were general affairs department expenses of the Company amounting to ¥2,159 million (\$21,549 thousand) and ¥2,167 million, respectively.

Assets under the elimination and corporate in 2008 and 2007 were ¥49,645 million (\$495,509 thousand) and ¥51,809 million, respectively, include principally cash and time deposits, marketable securities (current) and investment securities (non-current) of the Company.

Change in segmentation of business segment and changes in accounting policy

Although the Companies formerly classified its business into the four segments of Machinery, Environmental Control Plants, Operation and Maintenance, and Real Estate, the Companies classified its business into the four segments of Domestic Environment and Energy, Overseas Environment and Energy, Package Boiler, and Other from the year ended March 31, 2007.

In consideration of the expansion of overseas business operations, the Companies reviewed the segmentation of business segment in order to more properly report the business segment information.

As stated in Note 3, the rental income from real estate was accounted for amount of sales previously. Effective from the fiscal year ended March 31, 2007, however, the Companies changed its accounting policy so that such income should be included in the other income and that the cost incurred for such income that was included in the cost of sales should be included in the other expenses.

As stated in Note 3, Royalty revenue the Company receives from technology receivers had so far been included in "technical assistance fee" of other income. This was revised for inclusion in net sales effective from the current business year.

Due to this change, as compared with the previous method, net sales have increased by ¥185 million (\$1,846 thousand) and operating income by the same amount in the segment of Domestic Environment and Energy, and increased net sales by ¥485 million (\$4,841 thousand) in the segment of Overseas Environment and Energy, and by ¥12 million (\$120 thousand) in the segment of Package Boiler, and decreased operating loss by the same amount respectively for the current consolidated fiscal year.

Effective from the year ended March 31, 2008, the Company and its domestic consolidated subsidiaries changed the depreciation method for property, plant and equipment acquired on and after April 1, 2007 in accordance with the revision of Japanese Corporate Tax Law. Due to this change, as compared with the previous method, operating expenses have increased by ¥4 million (\$40 thousand) in the segment of Domestic Environment and Energy, and by ¥0 million (\$0 thousand) in the segment of Other, and decreased operating income by the same amount respectively, and increased operating expense by ¥0 million (\$0 thousand) in the segment of Overseas Environment and Energy and by ¥33 million (\$329 thousand) in the segment of Package Boiler and increased operating loss by the same amount respectively for the current consolidated fiscal year.

Pursuant to an amendment to the Japanese Corporate Tax Law, effective from the year ended March 31, 2008, the Company and its domestic consolidated subsidiaries have started to depreciate the remaining balance of the assets over a 5 year period using straight-line method from the following fiscal year after the book value of the assets decreases to 5% of the acquisition costs under the method of depreciation based on the pre-revision Tax law. Due to this change, as compared with the previous method, operating expenses have increased by ¥28 million (\$279 thousand) in the segment of Domestic Environment and Energy, and by ¥5 million (\$50 thousand) in the segment of Other, and decreased operating income by the same amount respectively, and increased operating expense by ¥6 million (\$60 thousand) in the segment of Overseas Environment and Energy and by ¥1 million (\$10 thousand) in the segment of Package Boiler and increased operating loss by the same amount respectively for the current consolidated fiscal year.

(b) Geographic segment information

Geographic segment information for the years ended March 31, 2008 was as follows:

Year ended March 31, 2008	Millions of Yen					
	Japan	Asia	Europe	Total	Elimination and Corporate	Consolidated
Sales:						
Outside customers .....	¥ 95,952	¥ 964	¥ 8,696	¥ 105,612	¥ -	¥ 105,612
Intersegment .....	11	156	5,833	6,000	(6,000)	-
Total .....	95,963	1,120	14,529	111,612	(6,000)	105,612
Operating expenses .....	104,561	1,025	15,294	120,880	(3,481)	117,399
Operating income (loss) .....	¥ (8,598)	¥ 95	¥ (765)	¥ (9,268)	¥ (2,519)	¥ (11,787)
Assets .....	¥ 71,957	¥ 1,125	¥ 4,512	¥ 77,594	¥ 35,033	¥ 112,627

Year ended March 31, 2008	Thousands of U.S.dollars					
	Japan	Asia	Europe	Total	Elimination and Corporate	Consolidated
Sales:						
Outside customers .....	\$ 957,700	\$ 9,622	\$ 86,795	\$1,054,117	\$ -	\$1,054,117
Intersegment .....	110	1,557	58,219	59,886	(59,886)	0
Total .....	957,810	11,179	145,014	1,114,003	(59,886)	1,054,117
Operating expenses .....	1,043,627	10,231	152,650	1,206,508	(34,744)	1,171,764
Operating income (loss) .....	\$ (85,817)	\$ 948	\$ (7,636)	\$ (92,505)	\$ (25,142)	\$ (117,647)
Assets .....	\$ 718,205	\$ 11,229	\$ 45,034	\$ 774,469	\$ 349,666	\$1,124,134

Information for geographic segment for the years ended March 31, 2007 is not disclosed due to geographic segment sales in overseas being not material compared to consolidated sales.

Corporate expenses included in operating expenses and not allocated to segment in 2008 was general affairs department expenses of the Company amounting to ¥2,159 million (\$21,549 thousand).

Assets under the elimination and corporate in 2008 was ¥49,645 million (\$495,509 thousand), respectively, include principally cash and time deposits, marketable securities (current) and investment securities (non-current) of the Company.

(c) Overseas sales

Overseas sales for the years ended March 31, 2008 and 2007 were as follows:

Year ended March 31, 2008	Millions of Yen			
	Asia	Europe	Other areas	Total
Overseas sales .....	¥ 4,414	¥ 16,171	¥ 42	¥ 20,627
Net sales .....				105,612
Ratio of overseas sales to net sales .....	4.2%	15.3%	0.0%	19.5%

Year ended March 31, 2007	Millions of Yen			
	Asia	Europe	Other areas	Total
Overseas sales .....	¥ 7,366	¥ 6,414	¥ 4	¥ 13,784
Net sales .....				98,748
Ratio of overseas sales to net sales .....	7.5%	6.5%	0.0%	14.0%

Year ended March 31, 2008	Thousands of U.S.dollars			
	Asia	Europe	Other areas	Total
Overseas sales .....	\$ 44,056	\$ 161,404	\$ 419	\$ 205,879
Net sales .....				1,054,117

As stated in Note 3, the royalty revenue was accounted for amount of the other income previously. Effective from the fiscal year ended March 31, 2008, however, the Companies changed its accounting policy so that such income should be included in sales. Due to this change, as compared with the previous method, overseas sales in Asia have increased by ¥497 million (\$4,961 thousand) for the current consolidated fiscal year.

**16. Related party transactions**

The Company owns 51 per cent of voting rights of Energy Mate Co., Ltd., and 50 per cent of voting rights of Campo Recycle Plaza Co., Ltd. The Company collects Energy Mate Co., Ltd. the capital, and lends Campo Recycle Plaza Co., Ltd. the capital.

The transactions amounts were as follows:

Energy Mate Co., Ltd.	Millions of Yen		Thousands of U.S.dollars
	2008	2007	2008
Lending of the capital .....	¥ -	¥ 319	\$ -
Collection of the capital .....	51	-	509
Loans receivable .....	1,461	1,511	14,582

Campo Recycle Plaza Co.,Ltd.	Millions of Yen		Thousands of U.S.dollars
	2008	2007	2008
Lending of the capital .....	¥ 1,162	¥ -	\$ 11,598
Loans receivable .....	1,662	-	16,588

Terms of transactions are determined under general market condition.

**17. Subsequent event**

On June 27, 2008, the shareholders of the Company approved the following appropriations:

Cash dividends .....	Millions of Yen		Thousands of U.S.dollars
	¥	209	\$ 2,086

## Independent Auditors' Report

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

We have audited the accompanying consolidated balance sheets of Takuma Co., Ltd. and consolidated subsidiaries as of March 31, 2008 and 2007, and the related consolidated statements of operations, changes in net assets and cash flows for the years then ended, expressed in Japanese yen. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to independently 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 Takuma Co., Ltd. and consolidated subsidiaries as of March 31, 2008 and 2007, 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.

Without qualifying our opinion, we draw attention to the following:

- (1) As discussed in Note 3 to the consolidated financial statements, effective April 1, 2006, the Companies changed the accounting policy concerning the rental income from real estate.
- (2) As discussed in Note 15 to the consolidated financial statements, effective April 1, 2006, the Companies changed the segmentation of business segment.
- (3) As discussed in Note 3 to the consolidated financial statements, effective April 1, 2007, the Companies changed the accounting policy concerning the royalty revenue.
- (4) As discussed in Note 11 to the consolidated financial statements, the Company objected to the cease and desist order issued by Japan Fair Trade Commission to be in violation of the Japanese Antimonopoly Act, and filed an appeal for its reversal with Tokyo High Court, a decision on which is currently pending.
- (5) As discussed in Note 11 to the consolidated financial statements, the Company objected to the ruling ordered by Tokyo District Court to pay damages to Tokyo Metropolitan Government due to violation of the Japanese Antimonopoly Act, and filed an appeal for its reversal, a decision on which is currently pending.

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2008 are presented solely for convenience. Our audit also included the translation of yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 1 to the consolidated financial statements.

*KPMG AZSA & Co.*

Tokyo, Japan  
June 27, 2008