TOYO KANETSU K.K.

2008 annual report

Profile

Toyo Kanetsu K.K. (TKK) was established in the year of 1941. Since that time, TKK has continued to meet the requirements of the industry through our policy of "Customers First."

The Plant & Machinery Division was established in 1950 when in-house welding technology was developed for welded storage tanks. Since then, our expertise has expanded to provide customers various kinds of storage tanks consisting of more than 5,000 units varying from crude oil storage tanks to LNG storage tanks. Particularly, we are proud of our outstanding track record of LNG Storage Tank construction, with 28 tanks in Japan and 57 tanks in overseas sites in Asia, Africa, Middle East, Oceania and the Western Hemisphere. Our technical expertise and our outstanding record of Safety, Quality & Delivery have been recognized and appreciated by the major clients throughout the world.

The Building Construction Division was started in 1989 for construction of apartment houses with application of modular steel frame structures. The Division has expanded its activities to shop and office buildings with use of prefabricated construction methods as well as conventional construction methods.

The Material Handling Division was begun in 1953 for manufacture and installation of highly standardized conveyors systems. Since that time, the Division has continued to develop the technology to meet the needs of our clients. The Division supplied one of the largest Airport Baggage Handling Systems in the world in 1998 at Kuala Lumpur International Airport in Malaysia. Also, as a leading provider company of Logistics Solutions in Japan, the Division has successfully completed numerous projects such as Distribution Center System, Truck Terminal System, Food Distribution Processing Center and Postal Sorting System. The Division became a subsidiary company of TKK under the name of Toyo Kanetsu Solutions K.K. in 2002 in order to maximize the efficiency and also to vitalize TKK Group companies.

TKK will continue to provide the advanced technology to answer the needs of its clients for today and tomorrow.

Contents

Toyo Kanetsu K.K. and Consolidated Subsidiaries

Financial Highlights

	Millions of yen					Thousands of U.S. dollars
	2008	2007	2006	2005	2004	***2008***
For the Years Ended 31st March:						
Net Sales	**¥ 49,785**	¥ 45,548	¥ 45,530	¥ 39,734	¥ 43,914	***$496,902***
Material Handling Systems Division	**15,243**	17,316	20,909	13,595	17,550	***152,139***
Plant & Machinery Division	**23,355**	17,029	14,643	15,217	10,386	***233,111***
Building Construction Division	**5,756**	5,944	5,668	7,533	9,280	***57,449***
Real Estate Utilizing Division	**581**	521	-	-	-	***5,803***
Other	**4,850**	4,738	4,310	3,389	6,698	***48,400***
Operating Income	**3,686**	1,887	1,904	1,349	923	***36,793***
Net Income	**3,810**	2,836	1,626	1,011	1,042	***38,028***
Cash dividends	**534**	415	277	-	-	***5,329***
At 31st March:						
Current Assets	**30,245**	30,226	25,309	22,796	21,024	***301,876***
Net Property, Plant and Equipment	**16,324**	16,956	16,566	16,544	17,052	***162,926***
Investments and Advances	**12,269**	21,498	24,852	16,300	16,103	***122,461***
Intangibles	**221**	322	413	317	280	***2,209***
Total Assets	**59,059**	69,002	67,140	55,957	54,459	***589,472***
Current Liabilities	**21,272**	22,865	20,084	20,420	16,893	***212,318***
Long-Term Liabilities	**8,988**	14,195	15,647	11,507	13,534	***89,711***
Minority Interests in Consolidated Subsidiaries	-	-	10	25	19	-
Shareholders' Equity	-	-	31,399	24,005	24,013	-
Total Liabilities, Minority Interests and Shareholders' Equity	-	-	67,140	55,957	54,459	-
Shareholders’ Equity	**26,564**	24,651	-	-	-	***265,142***
Valuation and Translation Adjustments	**2,235**	7,283	-	-	-	***22,301***
Minority Interests in Consolidated Subsidiaries	-	8	-	-	-	-
Total Liabilities and Net Assets	**59,059**	69,002	-	-	-	***589,472***
Order Backlog	**57,412**	34,176	38,467	34,232	34,701	***573,032***

	Yen					*U.S. dollars*
Per Share:						
Net Income	**¥ 27.90**	¥ 20.52	¥ 11.76	¥7.31	¥7.53	***$ 0.28***
Cash dividends	**4.00**	3.00	2.00	-	-	***$ 0.04***
Shareholders' Equity	**216.05**	231.10	227.11	173.57	173.55	***$ 2.16***
Number of Shareholders	**15,747**	16,797	17,005	16,418	16,078	
Number of Employees	**597**	573	552	525	564	

The U.S. dollar amounts in this annual report represent translations of Japanese yen at the rate of ￥100.19=$1.00, solely for the reader's convenience.

Toyo Kanetsu K.K. and Consolidated Subsidiaries

Message from the President

1. Analysis about operating results

In the year ended March 31, 2008, uncertainties over the economy increased in Japan, due to a change in exports that had previously remained to be steady, a slowdown in corporate earnings and capital expenditures, and a growth in risks such as squeezed credit in the financial market worldwide and risen prices of raw materials and fuel.
Under such macroeconomic circumstances, the Material Handling System Business benefited from diverse and sophisticated corporation needs for logistics systems, amid further progress in the reorganization of logistics bases and the outsourcing of logistics, reflecting a social trend toward logistics that are efficient and have less environmental impact.
In the Plant & Machinery Business, both oil producing and consuming countries actively invested in their storage facilities against the backdrop of continued price hikes of oil owing to globally increasing demand for energy.
In the Building Construction Business, the business climate remained severe because of further heightened competition to win orders and a rise in the prices of building materials.
Under this business environment, consolidated net sales for the fiscal year under review were JPY49.7 billion (US$496 million), up 9.3% from the previous year. Operating income almost doubled to JPY3.6 billion (US$36 million), up 95.4%, and ordinary income also jumped 67.7% to JPY4.1 billion (US$41 million). Net income was JPY3.8 billion (US$38 million), up 34.3%. Total orders received soared 87.8% year-on-year to JPY67.5 billion (US$674 million).

Operating results by business are as follows:

In the Material Handling Systems Business, we continued to focus on IT-based material handling systems such as our mainstay Sorting System for retailers, Picking System for consumer cooperatives, and Warehouse Management Systems (WMS), while implementing proactive sales activities that take advantage of events such as exhibitions and forums, and using our feasibility facilities for RFIDs (radio frequency IC tags) including a rewritable label system. Year-on-year total orders received remained almost unchanged. Gross profit margin increased thanks mainly to our efforts to raise productivity, but profits dropped sharply, affected by a decrease in sales.
As a result, net sales for this business were JPY15.2 billion (US$152 million) in the fiscal year under review, down 12.0% from the previous year, and operating income was JPY0.4 billion (US$4 million), down 42.6%. Orders received totaled JPY16.8 billion (US$167 million), down 0.3%.

In the Plant & Machinery Business, we implemented brisk sales activities focusing on profitability in the Middle East, Southeast Asia, and Africa, by making use of our extensive experience and technical capability and reliability as a specialist manufacturer, as well as international competitiveness. As a consequence, we won orders for two LNG tanks and two LPG tanks from Angola for a large LNG project, and two LPG tanks from Algeria.
In the domestic market, we won orders for one LNG tank for an existing LNG base. In the area of maintenance work, there was high demand for quakeproofing work for floating roof tanks as a result of a partial amendment of the Fire Service Law. In response, we strengthened our maintenance-work related organization and sales activities. As a consequence, orders received for such work increased substantially. To cope with increased orders, processing plants overseas strengthened their systems as processing bases, by enhancing production facilities and complying with legal systems not only for overseas markets, but for the Japanese market as well.
Processing and construction work for large projects for overseas markets, such as LNG tanks and oil tanks, progressed smoothly, while repair work was steady in the domestic market. Hence, sales rose sharply from the previous year. These sales, combined with our thorough management of all aspects of projects including costs, pushed up operating income by approximately 200% compared to the previous year.
As a result, net sales at this business were JPY23.3 billion (US$233 million), up 37.2% from the previous year, and operating income was JPY3.2 billion (US$32 million), up 194.9%. Orders received totaled JPY44.0 billion (US$439 million), up 222.6%.

In the Building Construction Business, earnings were affected by a partial amendment of the Building Standard Law in the first half of the fiscal year under review. However, orders received increased markedly from the previous year, thanks to an increase in large projects and an expansion in new businesses. Both sales and profits decreased, hurt particularly by sluggishness in the leased apartments sector. Meanwhile, we made every effort to improve profitability in other construction sectors. Accordingly, the decline of profits shrank as a whole.
As a result, net sales at this business were JPY5.7 billion (US$57 million), down 3.2% from the preceding year, and operating income was JPY0.1 billion (US$1 million), down 4.3%. Orders received totaled JPY6.7 billion (US$66 million), up 22.3%.

Group companies that are engaged in the Real Estate Leasing Business and businesses other than those mentioned above strove to expand and develop their businesses. As a result, aggregate net sales were JPY5.4 billion (US$54 million), up 3.3% from a year earlier.

2. Future Issues for the Corporate Group

(1) To continue and enhance reform and improvement of our major businesses for our sustainable growth
We will make further efforts to improve our technical capability and competitiveness, reform operations, and reduce costs, in order to facilitate the sustainable growth of each business.

(2) To revitalize human resources and organizations
We will strive to further obtain and train talented personnel, aiming to become an organization with creative power and the ability to act.

(3)To endeavor to realize fair and transparent corporate governance
We will establish internal control systems, including a compliance system, and a risk management system, while improving management monitoring, information disclosure, and accountability, in order to ensure sound growth and development of the Group.

June 2008

Takeshi Mizukami
President & Representative Director

Board of Directors and Corporate Auditors

Chairman & Representative Director .... Shigeaki Kiyota
President & Representative Director .... Takeshi Mizukami
Managing Director .... Shinji Shimazaki
Director .... Sadao Arita
.... Toru Yanagawa
.... Shoji Fujiyoshi
Auditor .... Teruo Nojo
.... Masaharu Hino
.... Keiichi Miyakawa
.... Takashi Nakamura

Line of Business

Plant & Machinery Business

Design & Engineering, Procurement, Shop-Fabrication and Construction of :

Floating Roof Tank
Cone Roof Tank
Dome Roof Tank
- LNG/Ethylene Storage Tank, etc.
- LPG Storage Tank, etc.

Spherical Tank

Material Handling Systems Business

Planning, Design, Manufacturing, Construction and Marketing of :

Distribution Center System
Truck Terminal System
Production Line System
Airport Baggage Handling System
Postal Sorting System
Inter-hospital Handling System
Food Processing Center System
Food Production Factory System
Apparel Center System

Building Construction Business

Design and Construction of :

Apartment House
Shop Building
Office and Warehouse Buildings

Real Estate Business

Sale, Brokerage and Leasing of :

Office Building
Apartment House
Distribution Center
Real Estate

Qualification

-Listed in primary stock exchanges (Tokyo).
-Quality Management System to ISO 9001 certified by Bureau Veritas Quality International (BVQI) for flat bottomed vertical cylindrical storage tank for low temperature service.
-Quality Management System to ISO 9001 certified by Bureau Veritas Quality International (BVQI) for baggage handling system, slide shoe type sorting conveyor and wheel up sorting conveyor.

Subsidiaries, Affiliated Companies and Line of Business

Subsidiaries which are consolidated, and affiliated companies which are accounted for by the equity method, are as follows.

Consolidated Subsidiaries

Domestic

Toyo Kanetsu Solutions K.K.
Share Capital : 100.0%
Line of Business : Logistics solution provider

K-Techno Inc.
Share Capital : 100.0%
Line of Business : Consulting & Maintenance of Material Handling System

TKL Co., Ltd.
Share Capital : 100.0%
Line of Business : Rental/Leasing & Insurance Agent

Toyo Service System K.K.
Share Capital : 91.7%
Line of Business : Real Estate Management, Welfare Facilities Management, Gardening/Floriculture Business & Property, Plant and Equipment Maintenance

Global Eight Corporation
Share Capital : 65.0%
Line of Business : Commodity & Foodstuffs Trading

Overseas

P.T. Toyo Kanetsu Indonesia
Share Capital : 100%
Line of Business : Storage Tanks/Pressure Vessels/Onshore & Offshore Steel Structures

Al Ghallilah Engineering & Construction L.L.C.
Share Capital : 65.0%
Line of Business : Storage Tanks/Pressure Vessels/Onshore & Offshore Steel Structures

Toyo Kanetsu Singapore Pte. Ltd.
Share Capital : 100%
Line of Business : Storage Tanks/Pressure Vessels

TKK-USA, Inc.
Share Capital : 100%
Line of Business : Storage Tanks/Pressure Vessels/Onshore & Offshore Steel Structures

Affiliated Companies (Equity Method)

Domestic

Toyo Koken K.K.
Share Capital : 39.3%
Line of Business : Electric-driven winches, Conveyors, Balancer & Robots

Toyo Miyama Co., Ltd.
Share Capital : 49.0%
Line of Business : Prefabrication of Unit House

***Katayama Co.**
Share Capital : 18.8%
Line of Business : Architectural Management

Manavis Co., Ltd.
Share Capital : 16.1%
Line of Business : Cosmetics, Cleaning Products

Overseas

Toyo Kanetsu (Malaysia) Sdn. Bhd.
Share Capital : 49.0%
Line of Business : Material handling Systems, Storage Tanks/Pressure Vessels/Onshore & Offshore Steel Structures

*****At March 31, 2008, the affiliated company, Katayama Co. has been excluded from companies accounted for an equity basis, because the Company has sold the investment in Katayama Co. at March 31, 2008.

Toyo Kanetsu K.K. and Consolidated Subsidiaries

Consolidated Balance Sheets

As at March 31, 2008 and 2007

ASSETS	Millions of yen		Thousands of U.S. dollars (Note 4)
	2008	2007	***2008***
Current Assets:			
Cash on hand and at bank (Note 5)	**¥7,579**	¥7,138	***$75,647***
Marketable securities (Notes 5 and 6)	**-**	1,499	***-***
Notes and accounts receivable	**11,641**	8,615	***116,182***
Less: Allowance for doubtful accounts	**(289)**	(238)	***(2,883)***
	11,352	8,377	***113,299***
Inventories (Note 7)	**8,998**	10,153	***89,814***
Deferred tax assets (Note 11)	**935**	977	***9,335***
Other current assets	**1,381**	2,082	***13,781***
Total current assets	**30,245**	30,226	***301,876***
Property, Plant and Equipment (Note 9)**:**			
Buildings and structures	**10,408**	10,316	***103,885***
Machinery and equipment	**4,815**	4,223	***48,045***
Land (Note 3(8))	**9,065**	9,073	***90,482***
Leased assets (Note 14)	**6,823**	6,718	***68,102***
Construction in progress	**-**	293	***-***
Less: Accumulated depreciation	**(14,787)**	(13,667)	***(147,588)***
Total property, plant and equipment	**16,324**	16,956	***162,926***
Investments and Advances:			
Investments in securities (Notes 8 and 9)	**9,790**	17,785	***97,712***
Long-term loans receivable	**1,017**	1,148	***10,155***
Other investments	**1,935**	3,115	***19,312***
Less: Allowance for doubtful accounts	**(473)**	(550)	***(4,718)***
Total investments and advances	**12,269**	21,498	***122,461***
Intangibles:			
Intangible fixed assets	**221**	322	***2,209***
Total intangibles	**221**	322	***2,209***
	¥59,059	¥69,002	***$589,472***

The accompanying notes are an integral part of the consolidated financial statements.

LIABILITIES and NET ASSETS	Millions of yen		Thousands of U.S. dollars (Note 4)
	2008	2007	***2008***
Current Liabilities:			
Short-term debt (Note 9)	**¥4,610**	¥4,861	***$46,009***
Notes and accounts payable	**2,216**	2,285	***22,116***
Accrued income taxes (Note 11)	**139**	128	***1,388***
Accrued liabilities	**4,233**	3,487	***42,251***
Advances from customers	**7,180**	9,604	***71,668***
Accrued bonuses	**242**	204	***2,414***
Reserve for losses on work in progress	**1,089**	1,212	***10,872***
Reserve for warranty costs for completed works	**263**	20	***2,620***
Reserve for contingent loss	**542**	639	***5,410***
Other current liabilities	**758**	425	***7,570***
Total current liabilities	**21,272**	22,865	***212,318***
Long-Term Liabilities:			
Long-term debt (Note 9)	**3,194**	4,361	***31,880***
Deferred tax liabilities on revaluation of land (Note 3(8) and 11)	**2,174**	2,174	***21,699***
Deferred tax liabilities (Note 11)	**1,786**	5,156	***17,823***
Accrued retirement benefits for employees (Note 10)	**1,631**	2,353	***16,284***
Accrued retirement benefits for directors and corporate auditors	**193**	141	***1,925***
Other long-term liabilities	**10**	10	***100***
Total long-term liabilities	**8,988**	14,195	***89,711***
Commitments and Contingent Liabilities (Note 16)			
Net Assets			
Shareholders' Equity:			
Common stock:			
Authorized: 297,000,000 shares			
Issued: 138,730,741 shares	**18,580**	18,580	***185,448***
Additional paid-in capital	**1,104**	1,104	***11,020***
Accumulated earnings	**8,481**	5,050	***84,652***
Less: Treasury stock, at cost	**(1,601)**	(83)	***(15,978)***
Total shareholders’ equity	**26,564**	24,651	***265,142***
Valuation and Translation Adjustments:			
Net unrealized holding gains on investments in securities	**2,576**	7,557	***25,706***
Deferred gains or losses on hedges	**(94)**	(16)	***(940)***
Unrealized gains on revaluation of land (Note 3(8))	**391**	391	***3,907***
Foreign currency translation adjustments	**(638)**	(649)	***(6,372)***
Total valuation and translation adjustments	**2,235**	7,283	***22,301***
Minority Interests	**-**	8	***-***
Total Net Assets	**28,799**	31,942	***287,443***
	¥59,059	¥69,002	***$589,472***

The accompanying notes are an integral part of the consolidated financial statements.

Toyo Kanetsu K.K. and Consolidated Subsidiaries

Consolidated Statements of Operations

For the years ended March 31, 2008 and 2007

	Millions of yen		*Thousands of U.S. dollars (Note 4)*
	2008	2007	***2008***
Net Sales	**¥49,785**	¥45,548	***$496,902***
Cost of Sales (Note 13)	**42,377**	39,920	***422,960***
Gross profit	**7,408**	5,628	***73,942***
Selling, General and Administrative Expenses (Notes 12 and 13)	**3,722**	3,741	***37,149***
Operating Income	**3,686**	1,887	***36,793***
Other Income (Expenses):			
Interest and dividend income	**352**	278	***3,518***
Interest expense	**(152)**	(234)	***(1,512)***
Foreign currency exchange loss	**(140)**	(48)	***(1,395)***
Equity in income of unconsolidated subsidiaries and affiliates	**322**	504	***3,214***
Gain on trading of derivative	**-**	56	***-***
Other, net	**53**	14	***510***
	435	570	***4,335***
Income before special items	**4,121**	2,457	***41,128***
Special Profit (Loss):			
Gain on sale or disposal of property, plant and Equipment, net	**6**	136	***65***
Provision for bad debts	**(151)**	(117)	***(1,506)***
Reversal of provision for bad debts	**-**	13	***-***
Loss on write-down of investments in securities	**(3)**	(22)	***(28)***
Gain on sale of investments in securities	**-**	18	***-***
Gain on sale of investment in affiliate	**19**	-	***187***
Gain on redemption of investment in affiliate	**-**	128	***-***
Proceed of insurance money on overseas project	**-**	45	***-***
Provision for contingent loss	**-**	(639)	***-***
Reversal of provision for contingent loss	**97**	-	***967***
Other, net	**(11)**	40	***(107)***
	(43)	(398)	***(422)***
Income before income taxes and minority interests	**4,078**	2,059	***40,706***
Income Taxes (Note 11)**:**			
Current	**184**	162	***1,841***
Deferred	**91**	(948)	***908***
	275	(786)	***2,749***
Minority Interests in Net Income (Loss) of Consolidated Subsidiaries	**(7)**	9	***(71)***
Net Income	**¥3,810**	¥2,836	***$38,028***

	Yen		*U.S. dollars (Note 4)*
Per Share (Note 3 (20))			
Net income	**¥27.90**	¥20.52	***$0.28***

The accompanying notes are an integral part of the consolidated financial statements.

Toyo Kanetsu K.K. and Consolidated Subsidiaries

Consolidated Statements of Changes in Net Assets

For the years ended March 31, 2007 and 2006

	Number of shares of common stock	Millions of yen				
		Common stock	Additional paid-in capital	Accumulated earnings (deficit)	Treasury stock	Total Shareholders' Equity
Balance at March 31, 2006	138,730,741	¥18,580	¥1,104	¥2,546	¥(66)	¥22,164
Cash dividends paid	-	-	-	(277)	-	(277)
Net income for the year	-	-	-	2,836	-	2,836
Purchase of treasury stock	-	-	-	-	(17)	(17)
Effect of decrease in number of consolidated subsidiaries	-	-	-	(55)	-	(55)
Net unrealized holding gains on investments	-	-	-	-	-	-
Deferred gains or losses on hedges	-	-	-	-	-	-
Foreign currency translation adjustments	-	-	-	-	-	-
Minority interests	-	-	-	-	-	-
Balance at March 31, 2007	138,730,741	¥18,580	¥1,104	¥5,050	¥(83)	¥24,651

	Millions of yen						
	Net unrealized holding (gains) losses on investment securities	Deferred gains or losses on hedges	Unrealized gains on revaluation of land	Foreign currency translation adjustments	Total valuation and translation adjustments	Minority interests	Total Net Assets
Balance at March 31, 2006	¥9,526	-	¥391	¥(682)	¥9,235	¥10	¥31,409
Cash dividends paid	-	-	-	-	-	-	(277)
Net income for the year	-	-	-	-	-	-	2,836
Purchase of treasury stock	-	-	-	-	-	-	(17)
Effect of decrease in number of consolidated subsidiaries	-	-	-	26	26	-	(29)
Net unrealized holding gains on investments	(1,969)	-	-	-	(1,969)	-	(1,969)
Deferred gains or losses on hedges	-	(16)	-	-	(16)	-	(16)
Foreign currency translation adjustments	-	-	-	7	7	-	7
Minority interests	-	-	-	-	-	(2)	(2)
Balance at March 31, 2007	¥7,557	¥(16)	¥391	¥(649)	¥7,283	¥8	¥31,942

For the years ended March 31, 2008 and 2007

	Number of shares of common stock	Millions of yen Common stock	Additional paid-in capital	Accumulated earnings (deficit)	Treasury stock	Total Shareholders' Equity
Balance at March 31, 2007	138,730,741	¥18,580	¥1,104	¥5,050	¥(83)	¥24,651
Cash dividends paid	-	-	-	**(415)**	-	**(415)**
Net income for the year	-	-	-	**3,810**	-	**3,810**
Purchase of treasury stock	-	-	-	-	**(1,518)**	**(1,518)**
Effect of increase in number of consolidated subsidiaries	-	-	-	**(1)**	-	**(1)**
Effect of decrease in number of affiliated companies	-	-	-	**37**	-	**37**
Net unrealized holding gains on investments	-	-	-	-	-	-
Deferred gains or losses on hedges	-	-	-	-	-	-
Foreign currency translation adjustments	-	-	-	-	-	-
Minority interests	-	-	-	-	-	-
Balance at March 31, 2008	**138,730,741**	**¥18,580**	**¥1,104**	**¥8,481**	**¥(1,601)**	**¥26,564**

	Millions of yen						
	Net unrealized holding (gains) losses on investment securities	Deferred gains or losses on hedges	Unrealized gains on revaluation of land	Foreign currency translation adjustments	Total valuation and translation adjustments	Minority interests	Total Net Assets
Balance at March 31, 2007	¥7,557	¥(16)	¥391	¥(649)	¥7,283	¥8	¥31,942
Cash dividends paid	-	-	-	-	-	-	**(415)**
Net income for the year	-	-	-	-	-	-	**3,810**
Purchase of treasury stock	-	-	-	-	-	-	**(1,518)**
Effect of increase in number of consolidated subsidiaries	-	-	-	-	-	-	**(1)**
Effect of decrease in number of affiliated companies	-	-	-	-	-	-	**37**
Net unrealized holding gains on investments	**(4,981)**	-	-	-	**(4,981)**	-	**(4,981)**
Deferred gains or losses on hedges	-	**(78)**	-	-	**(78)**	-	**(78)**
Foreign currency translation adjustments	-	-	-	**11**	**11**	-	**11**
Minority interests	-	-	-	-	-	**(8)**	**(8)**
Balance at March 31, 2008	**¥2,576**	**¥(94)**	**¥391**	**¥(638)**	**¥2,235**	-	**¥28,799**

For the years ended March 31, 2008 and 2007

	Number of shares of common stock	Thousands of U.S. dollars (Note 4) Common stock	Additional paid-in capital	Accumulated earnings (deficit)	Treasury stock	Total Shareholders' Equity
Balance at March 31, 2007	*138,730,741*	*$185,448*	*$11,020*	*$50,400*	*$(824)*	*$246,044*
Cash dividends paid	-	-	-	***(4,144)***	-	***(4,144)***
Net income for the year	-	-	-	***38,028***	-	***38,028***
Purchase of treasury stock	-	-	-	-	***(15,154)***	***(15,154)***
Effect of increase in number of consolidated subsidiaries	-	-	-	***(8)***	-	***(8)***
Effect of decrease in number of affiliated companies	-	-	-	***376***	-	***376***
Net unrealized holding gains on investments	-	-	-	-	-	-
Deferred gains or losses on hedges	-	-	-	-	-	-
Foreign currency translation adjustments	-	-	-	-	-	-
Minority interests	-	-	-	-	-	-
Balance at March 31, 2008	***138,730,741***	***$185,448***	***$11,020***	***$84,652***	***$(15,978)***	***$265,142***

	Thousands of U.S. dollars (Note 4) Net unrealized holding (gains) losses on investment securities	Deferred gains or losses on hedges	Unrealized gains on revaluation of land	Foreign currency translation adjustments	Total valuation and translation adjustments	Minority interests	Total Net Assets
Balance at March 31, 2007	*$75,426*	*$(162)*	*$3,907*	*$(6,482)*	*$72,689*	*$81*	*$318,814*
Cash dividends paid	-	-	-	-	-	-	***(4,144)***
Net income for the year	-	-	-	-	-	-	***38,028***
Purchase of treasury stock	-	-	-	-	-	-	***(15,154)***
Effect of increase in number of consolidated subsidiaries	-	-	-	-	-	-	***(8)***
Effect of decrease in number of affiliated companies	-	-	-	-	-	-	***376***
Net unrealized holding gains on investments	***(49,720)***	-	-	-	***(49,720)***	-	***(49,720)***
Deferred gains or losses on hedges	-	***(778)***	-	-	***(778)***	-	***(778)***
Foreign currency translation adjustments	-	-	-	***110***	***110***	-	***110***
Minority interests	-	-	-	-	-	***(81)***	***(81)***
Balance at March 31, 2008	***$25,706***	***$(940)***	***$3,907***	***$(6,372)***	***$22,301***	-	***$287,443***

The accompanying notes are an integral part of the consolidated financial statements.

Toyo Kanetsu K.K. and Consolidated Subsidiaries

Consolidated Statements of Cash Flows

For the years ended March 31, 2008 and 2007

	Millions of yen		*Thousands of U.S. dollars (Note 4)*
	2008	2007	***2008***
Cash Flows from Operating Activities:			
Income before income taxes and minority interests	**¥4,078**	¥2,059	***$40,705***
Adjustments for:			
Depreciation and amortization	**1,776**	1,516	***17,731***
Amortization of long-term prepaid expenses	**818**	679	***8,168***
Decrease in provision for allowance for doubtful accounts	**(27)**	(271)	***(271)***
Increase in provision for bonuses	**-**	22	***-***
Decrease in provision for employees' retirement benefits	**(719)**	(1,173)	***(7,178)***
Increase in provision for retirement benefit for directors and corporate auditors	**52**	39	***516***
Increase (decrease) in provision for losses on work in progress	**(84)**	908	***(839)***
Increase in provision for warranty costs for completed works	**243**	20	***2,421***
Increase (decrease) in provision for contingent loss	**(97)**	639	***(967)***
Interest and dividend income	**(352)**	(278)	***(3,518)***
Interest expense	**152**	234	***1,512***
Exchange (gain) loss	**40**	(50)	***403***
Equity in income of unconsolidated subsidiaries and affiliates	**(322)**	(504)	***(3,214)***
Net gain on sale of investments in securities	**-**	(18)	***-***
Loss on write-down of investments in securities	**3**	22	***28***
Gain on sale of investment in affiliate	**(19)**	-	***(187)***
Gain on redemption of investment in affiliate	**-**	(128)	***-***
Gain on sale of property, plant and equipment, net	**(8)**	(199)	***(78)***
Loss on disposal of property, plant and equipment	**0**	62	***1***
Increase in notes and accounts receivables	**(2,859)**	(759)	***(28,538)***
(Increase) decrease in inventories	**1,153**	(3,391)	***11,512***
(Increase) decrease in accrued income	**870**	(884)	***8,687***
Increase (decrease) in notes and accounts payable	**718**	(326)	***7,163***
Increase (decrease) in advances from customers	**(2,273)**	2,513	***(22,684)***
Other	**142**	118	***1,409***
Sub total	**3,285**	850	***32,782***
Interest and dividend income received	**356**	286	***3,554***
Interest expense paid	**(140)**	(228)	***(1,396)***
Income taxes paid	**(201)**	(454)	***(2,007)***
Net cash provided by operating activities	**3,300**	454	***32,933***
Cash Flows from Investing Activities:			
Increase in time deposits (over 3-month term)	**(76)**	(40)	***(759)***
Proceeds from withdrawal of time deposits	**60**	-	***600***
Payments for purchase of property, plant and equipment	**(1,333)**	(2,563)	***(13,306)***
Proceeds from sales of property, plant and equipment	**25**	327	***254***
Payments for purchase of investments in securities	**(61)**	(56)	***(610)***
Proceeds from sales of investments in securities	**56**	683	***561***
Payment for purchase of investment in consolidated subsidiary	**-**	(29)	***-***
Proceeds from redemption of investment in affiliate	**-**	232	***-***
Proceeds from clearing of consolidated subsidiary	**-**	45	***-***
Decrease in long-term loans receivable	**122**	182	***1,221***
Increase in long-term prepaid expenses	**(1)**	(1,180)	***(5)***
Other	**153**	14	***1,514***
Net cash used in investing activities	**(1,055)**	(2,385)	***(10,530)***
Cash Flows from Financing Activities:			
Increase in short-term debt, net	**331**	271	***3,309***
Proceeds from long-term debt	**450**	2,696	***4,491***
Repayment of long-term debt	**(2,143)**	(2,056)	***(21,391)***
Purchase of treasury stock	**(1,518)**	-	***(15,154)***
Capital dividend paid	**(411)**	(277)	***(4,105)***
Other	**-**	(21)	***-***
Net cash provided by (used in) financing activities	**(3,291)**	613	***(32,850)***
Effect of Exchange Rate Changes on Cash and Cash Equivalents	**(27)**	31	***(269)***
Net Decrease in Cash and Cash Equivalents	**(1,073)**	(1,287)	***(10,716)***
Cash and Cash Equivalents at Beginning of Year	**8,399**	9,768	***83,834***
Increase (decrease) in Cash and Cash Equivalents owing to decrease in number of consolidated subsidiaries (Note 3(1))	**0**	(82)	***0***
Cash and Cash Equivalents at End of Year (Note 5)	**¥7,326**	¥8,399	***$73,118***

The accompanying notes are an integral part of the consolidated financial statements.

Notes to the Consolidated Financial Statements

For the years ended March 31, 2008 and 2007

1. Basis of Presenting the Consolidated Financial Statements

The accompanying consolidated financial statements of Toyo Kanetsu Kabushiki Kaisha (the "Company") and its subsidiaries (collectively, the "Companies") are prepared on the basis of accounting principles generally accepted in Japan, which are different in certain respects as to application and disclosure requirements of International Financial Reporting Standards, and are compiled from the consolidated financial statements prepared by the Company as required by the Financial Instruments and Exchange Law of Japan. The accounts of overseas consolidated subsidiaries are based on their financial statements prepared in conformity with generally accepted accounting principles and practices prevailing in the respective countries in which the subsidiaries are incorporated.

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

2. Accounting Standards for Presentation of Net Assets in the Balance Sheet

Effective from the year ended March 31, 2007, the Company has applied "Accounting standards for presentation of net assets in the balance sheet (Accounting Standards Board of Japan Statement No.5)", and "Implementation guidance for Accounting standards for presentation of net assets in the balance sheet (Accounting Standards of Japan Guidance No.8)" both issued by the Accounting Standards Board of Japan on December 9, 2005.
The amounts corresponding to the conventional "Shareholders' equity" in the balance sheet at March 31, 2007 is ¥31,950 million ($270,557 thousand).
"Net assets" in the balance sheet for this year is presented according to the revision of "Regulations concerning the Terminology, Form and Presentation Methods of Consolidated Financial Statements" dated on April 25, 2006.

3. Summary of Significant Accounting Policies

(1) Principles of Consolidation and Investments in Affiliated Companies
The consolidated financial statements include the accounts of the Company and those of its subsidiaries in which it has control. The consolidated financial statements include, with the exception of subsidiaries that are not material, the accounts of its nine subsidiaries (eight subsidiaries in 2007). All significant inter-company transactions and accounts and unrealized inter-company profits are eliminated on consolidation.

Effective from the year ended March 31, 2008, the subsidiary, Toyo Kanetsu Singapore Pte. Ltd. has been included in consolidated subsidiaries, because that company has a material impact on the consolidated financial statements.

Investments in unconsolidated subsidiaries and affiliated companies in which the Company has significant influence are accounted for under the equity method. These unconsolidated subsidiaries and affiliated companies to which the equity method is applied total five at March 31, 2008 and five at March 31, 2007. Consolidated net income includes the Company's equity in the current earnings of those companies after elimination of unrealized inter-company profits.

At March 31, 2008, the affiliated company, Katayama Co. has been excluded from companies accounted for an equity basis, because the Company has sold the investment in Katayama Co. at March 31, 2008.

The excess of the cost over the underlying net equity of investments in consolidated subsidiaries as well as companies accounted for on an equity basis, is deferred and amortized on a straight-line basis over a period of five years from the date of acquisition.

Four subsidiaries were consolidated on the basis of their fiscal years ended at December 31, 2007 for the current year consolidation and three subsidiaries were consolidated on the basis of their fiscal years ended at December 31, 2006 for the previous year consolidation, respectively. Material differences in inter-company transactions and accounts arising from the use of the different fiscal year ends are appropriately adjusted for on consolidation.

(2) Revaluation of Assets and Liabilities of the Subsidiaries
All assets and liabilities of the subsidiaries are fair valued as of the date of acquisition of control.

(3) Cash and Cash Equivalents
Cash and cash equivalents in the consolidated statements of cash flows are composed of cash on hand, bank deposits able to be withdrawn on demand and short-term investments with an original maturity of three months or less and which represent a minor risk of fluctuation in value.

(4) Allowance for Doubtful Accounts

The allowance for doubtful accounts is provided at an amount for losses which are expected to occur but cannot be determined on an item-by-item or group basis. This general allowance is calculated using historical write-off experience from prior periods. In addition, an amount for expected losses on individual uncollectible receivables is calculated based on management's estimate.

(5) Inventories

Inventories are valued at cost as determined by the following methods:

Raw materials………………………Weighted average method
Work in process and supplies ……… Accumulated materials and production cost

(6) Financial Instruments

(a) Derivatives
All derivatives are stated at fair value except for certain derivatives that are designated as "hedging instruments" (see (c) Hedge Accounting below).

(b) Investments in Securities
Securities held by the Company and its subsidiaries are classified into two categories:

"Investments of the Company in equity securities issued by unconsolidated subsidiaries and affiliates" are accounted for by the equity method.

Other investments in debt and equity securities are classified as "Other securities". The adoption of mark-to-market accounting for "Other securities" with market quotations becomes effective for the year ended March 31, 2007. As a result of this change, "Other securities" with market quotations are stated at fair value with any unrealized holding gains and losses, net of tax, being reported in Changes in Net Assets as "Net unrealized holding gains or losses on investment securities". "Other securities" without market quotations are stated at cost. "Other securities" which have the characteristics of cash equivalents are presented as Marketable Securities (current) while the remainder of "Other securities" are presented as Investments in Securities (non-current). The costs of "Other securities" sold are determined by the weighted average method.

(c) Hedge Accounting
Gains or losses arising from changes in the fair value of the derivatives designated as "hedging instruments" are deferred as an asset or liability and included in net assets in the same period during which the gains and losses on the hedged items or transactions are recognized. However, in cases where forward exchange contracts used as hedges meet certain hedging criteria, the existing foreign currency receivables or payables are translated at their contract rates. In addition, if interest rate swap contracts or currency swap contracts meet certain hedging criteria, the net amount to be paid or received under these swap contracts is added to or deducted from the interest on the related hedged liabilities.

Derivatives designated as hedging instruments by the Company are principally interest swaps, currency swaps, and forward exchange contracts. The related hedged items are trade accounts receivable and payable, and long-term bank loans.

The Company has a policy for utilizing the above hedging instruments in order to reduce the Company's exposure to the risk of foreign exchange and interest rate fluctuations. Thus, the Company's purchases of hedging instruments are limited to, at maximum, the amounts of the related hedged items.

The Company evaluates the effectiveness of its hedging activities by reference to the accumulated gains or losses on the hedging instruments and the related hedged items beginning from the commencement of the hedges.

(7) Property, Plant and Equipment

Property, plant and equipment are stated at cost. The cost of maintenance, repairs and minor renewals is charged to current operations; major renewals and enhancements are capitalized. Depreciation is mainly computed using the declining-balance method, except for buildings acquired after April 1, 1998, to which the straight-line method is applied for the Company and its domestic subsidiaries. The principal estimated useful lives range from 3 to 50 years for buildings and from 10 to 15 years for machinery and equipment. Depreciation of overseas subsidiaries is computed using the straight-line method.

(Changes in accounting method)
Effective from the year beginning April 1, 2007, the Company and its domestic consolidated subsidiaries changed the depreciation method for property, plant and equipment acquired on or after April 1, 2007 in accordance with the revised Corporation Tax Law.
The impact of this change on operating income, income before special items and income before income taxes and minority interests is immaterial, respectively.
Among property, plant and equipment acquired before April 1, 2007, those depreciated to the allowable limit have been depreciated the difference between the 5% amount of acquisition cost and minimal reminder amount on a straight-line basis over a period of five years.

(8) Revaluation of Land

In accordance with the "Law on Land Revaluation" issued on March 31, 1998 and the "Law Related to the Revision of the Law of Land Revaluation" issued on March 31, 2001, the Company revalued its business-purpose land. Of the revaluation difference, the amount related to tax is recognized as a deferred tax liability and the revaluation difference, net of tax, is recognized as a component of shareholders' equity.

Method of the revaluation

The revaluation was performed based on the fixed asset tax revaluation amount set in the "Law on Land Revaluation" No.2 article 3, and is calculated based on land prices set in the "Law on Land Revaluation" No.2 article 4, with certain reasonable adjustments as follows:

Date of the revaluation:	March 31, 2002
Land value before revaluation:	¥7,189 million
Land value after revaluation:	¥ 10,844 million

The excess of the book value over the current market value of such revalued land held at March 31, 2008 amounted to ¥3,840 million ($38,323 thousand).

(9) Intangible Assets

Amortization of intangible assets is computed using the straight-line method. Software for internal use is amortized over its expected useful life (5 years), on a straight-line basis.

(10) Reserve for losses on work in progress

A reserve for losses on work in progress is provided based on an estimate of the total losses which can be anticipated for the next fiscal year and beyond in respect of construction projects on which eventual losses are deemed inevitable and amounts thereof can reasonably be estimated.

(11) Reserve for warranty costs for completed works

A reserve for warranty costs for completed works is provided based on the past experience rates for warranty costs and after-sales service costs for completed works on an item-by-item or group basis.

(12) Reserve for contingent loss

A reserve for contingent loss is provided at the amount which can be reasonably estimated according to the occurrence of contingency and considering the risks of each contingency.

(13) Income Taxes

The income taxes of the Company and its domestic subsidiaries consist of corporate income taxes, local inhabitants' taxes and enterprise taxes.

Income taxes are determined using the asset and liability approach, whereby deferred tax assets and liabilities are recognized in respect of temporary differences between the tax base of assets and liabilities and those as reported in the consolidated financial statements.

(14) Accrued Bonuses

Accrued bonuses to employees are provided for at the estimated amounts which the Company and its consolidated subsidiaries are obligated to pay to employees after the fiscal year-end, based on services provided during the current period.

(15) Accrued Retirement Benefits for Employees

Accrued retirement benefits to employees of the Company and its major consolidated subsidiaries are provided based on the estimated present value of projected benefit obligations and fair value of funded plan assets. For other insignificant consolidated subsidiaries, accrued retirement benefits to employees are calculated using the simplified method. The amount of actuarial gains (losses) is amortized on a straight-line basis over five years and recognized as deductions from expenses or included in expenses, respectively, in the next fiscal year. Prior service cost is recognized as deductions from expenses or included in expenses, respectively, in the year of occurrence.

(Changes in accounting method)

The Company and its consolidated subsidiaries had previously amortized any actuarial differences in the year of occurrence. The actuarial differences that arise from the differences between the expected rate of investment and the actual rate of investment can create large fluctuations on Operating Income each fiscal year.

Therefore, from the year ended at March 31, 2007, the Company and its consolidated subsidiaries has adopted the amortization of actuarial differences based on the straight-line basis over five years instead of amortizing the full value of the actuarial difference in the year of occurrence.

As a result of this change, Operating Income, Income before special items and Income before income taxes and minority interests have decreased respectively by ¥34 million ($286 thousand) as compared with the calculation using the former method.

(16) Accrued Retirement Benefits for Directors and Corporate Auditors

Accrued retirement benefits for directors and corporate auditors of the Company and its subsidiaries are provided for in accordance with the Companies' established policies on the accrual basis.

(17) Accounting for Finance Leases

Leases that transfer substantially all the risks and rewards of ownership of the assets are accounted for as capital leases. Leases not transferring ownership of the assets at the end of the lease term are accounted for as operating leases, in accordance with accounting principles and practices generally accepted in Japan.

(18) Depreciation of Leased Assets

Leased assets are depreciated over the term of the lease on a straight-line basis.

(19) Revenue Recognition

The Company uses the percentage-of-completion method for the recognition of sales and gross profit in respect of certain contracts that take more than one year to complete. In all other cases, sales and gross profit are recorded when the relevant items are completed or delivered. One consolidated subsidiary recognizes revenue on the installment basis.

(20) Earnings Per Share

The computation of net income per common share is based on the weighted average number of outstanding shares of common stock.

4. United States Dollar Amounts

Amounts in U.S. dollars are included solely for the convenience of readers outside Japan. The rate of ¥100.19=U.S. $1.00, the approximate rate of exchange prevailing at March 31, 2008, has been used in translation. The inclusion of such amounts are not intended to imply that the Japanese yen has been or could be readily converted, realized or settled in U.S. dollars at this rate or any other rates.

5. Cash and Cash Equivalents

Cash and cash equivalents as at March 31, 2008 and 2007 for the purpose of statement of cash flows consisted of:

	Millions of yen		*Thousands of U.S. dollars*
March 31	**2008**	2007	***2008***
Cash on hand and at bank	**¥7,579**	¥7,138	***$75,647***
Less: Time deposits, over 3-month term	**(252)**	(236)	***(2,515)***
Add: Short-term investments included in marketable securities	-	1,499	-
Less: Other	**(1)**	(2)	***(14)***
Cash and cash equivalents	**¥7,326**	¥8,399	***$73,118***

6. Marketable Securities

Marketable securities as at March 31, 2008 and 2007 were as follows:

	Millions of yen		*Thousands of U.S. dollars*
March 31	**2008**	2007	***2008***
Commercial paper	-	¥1,499	-

7. Inventories

Inventories as at March 31, 2008 and 2007 were as follows:

	Millions of yen		*Thousands of U.S. dollars*
March 31	**2008**	2007	***2008***
Work in process	**¥8,359**	¥9,355	***$83,435***
Other	**639**	798	***6,379***
	¥8,998	¥10,153	***$89,814***

8. Investments in Securities

Investments in securities as at March 31, 2008 and 2007 were as follows:

March 31	Millions of yen 2008	Millions of yen 2007	*Thousands of U.S. dollars* ***2008***
Listed equity securities and bonds	**¥7,425**	¥15,657	***$74,104***
Unlisted equity securities and bonds	**2,365**	2,128	***23,608***
	¥9,790	¥17,785	***$97,712***
Investments in unconsolidated subsidiaries and affiliates included in investments in securities	**¥1,552**	¥1,354	***$15,487***

The aggregate acquisition cost, gross unrealized gains and losses and carrying amount on the balance sheet of other securities with market quotations at March 31, 2008 and 2007 were as follows:

	At March 31, 2008 Millions of yen			
	Acquisition cost	Unrealized gains	Unrealized losses	Carrying amount
Equity securities	**¥3,045**	**¥4,380**	**-**	**¥7,425**
Bonds	**-**	**-**	**-**	**-**
Other	**-**	**-**	**-**	**-**
Total	**¥3,045**	**¥4,380**	**-**	**¥7,425**

	At March 31, 2007 Millions of yen			
	Acquisition cost	Unrealized gains	Unrealized losses	Carrying amount
Equity securities	¥2,986	¥12,671	-	¥15,657
Bonds	-	-	-	-
Other	-	-	-	-
Total	¥2,986	¥12,671	-	¥15,657

	At March 31, 2008 *Thousands of U.S. dollars*			
	Acquisition cost	*Unrealized gains*	*Unrealized losses*	*Carrying amount*
Equity securities	***$30,395***	***$43,709***	***-***	***$74,104***
Bonds	***-***	***-***	***-***	***-***
Other	***-***	***-***	***-***	***-***
Total	***$30,395***	***$43,709***	***-***	***$74,104***

The Company writes down the book value of other securities when the market value declines by more than 50%, or the market value declines by more than 30% but less than 50% and the Company management determines the decline to be other than temporary.

Proceeds from sale of other securities were ¥0 million ($0 thousand) and ¥570 million for the years ended March 31, 2008 and 2007, respectively. On those sales, gross realized gains were ¥0 million ($0 thousand) and ¥18 million for the years ended March 31, 2008 and 2007, respectively. Gross realized losses were ¥0 million ($0 thousand) and ¥0 million for the years ended March 31, 2008 and 2007, respectively.

9. Short-Term Debt and Long-Term Debt

Short-term debt consists principally of a bank overdraft, bearing interest at a weighted average annual rate of 2.4% and 3.3% for the years ended March 31, 2008 and 2007, respectively.

Short-term debt as at March 31, 2008 and 2007 were as follows:

	Millions of yen		*Thousands of U.S. dollars*
March 31	**2008**	2007	***2008***
Bank overdraft			
Secured	**¥1,003**	¥1,169	***$10,016***
Unsecured	**2,044**	1,599	***20,395***
Current portion of long-term debt	**1,563**	2,093	***15,598***
	¥4,610	¥4,861	***$46,009***

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

	Millions of yen		*Thousands of U.S. dollars*
March 31	**2008**	2007	***2008***
Payable to domestic banks, insurance companies and other, with interest rates shown below (* 1)			
Secured	**¥850**	¥675	***$8,484***
Unsecured	**3,907**	5,779	***38,994***
	4,757	6,454	***47,478***
Less: Current portion of long-term debt	**(1,563)**	(2,093)	***(15,598)***
	¥3,194	¥4,361	***$31,880***

March 31	**2008**	2007
(*1) Interest rates	**1.0% to 3.0%**	1.0 % to 3.0 %

Annual maturities of long-term debt at March 31, 2008 were as follows:

Year ending on March 31,	Millions of yen	*Thousands of U.S. dollars*
2009	**¥1,563**	***$15,598***
2010	**1,849**	***18,454***
2011	**1,034**	***10,317***
2012	**311**	***3,109***
	¥4,757	***$47,478***

Assets pledged as collateral for the short-term debt and the long-term debt as at March 31, 2008 and 2007 were as follows:

	Millions of yen		*Thousands of U.S. dollars*
March 31	**2008**	2007	***2008***
Investments in securities	**¥515**	¥838	***$5,140***
Buildings (at net book value)	**617**	663	***6,158***
Machinery (at net book value)	**19**	23	***186***
Land	**5,459**	5,459	***54,487***
	¥6,610	¥6,983	***$65,971***

10. Retirement Benefits Plan

The Company and some consolidated subsidiaries have defined benefits pension plans and employee's pension funds by multi-employer plan as the system of defined benefits. The other consolidated subsidiaries have tax-qualified pension plans and termination allowance plans.
The Company and certain consolidated subsidiaries also have the defined contribution pension plans.

The accrued retirement benefits as of March 31, 2008 and 2007 were as follows:

	Millions of yen		*Thousands of U.S. dollars*
	2008	2007	***2008***
Projected benefit obligations	**¥3,341**	¥(3,465)	***$33,343***
Plan assets	**1,619**	1,140	***16,155***
Net unreserved projected benefit obligations	**1,722**	(2,325)	***17,188***
Unrecognized actuarial differences	**91**	(28)	***904***
Accrued retirement benefits recognized in balance sheets	**¥1,631**	¥(2,353)	***$16,284***

Net pension and severance costs related to the retirement benefit plans for the years ended March 31, 2008 and 2007 were as follows:

	Millions of yen		*Thousands of U.S. dollars*
	2008	2007	***2008***
Service costs	**¥158**	¥157	***$1,572***
Interest cost	**53**	52	***534***
Expected return on plan assets	**11**	-	***113***
Net amortization	**(6)**	-	***(64)***
Amortization of prior service costs	**-**	(83)	***-***
Transfer to defined contribution pension plans	**46**	50	***462***
Net pension and severance costs	**¥262**	¥176	***$2,617***

Assumptions used in calculation of the above information were as follows:

	As of March 31	
	2008	2007
Discount rate	**1.5 %**	1.5 %
Expected rate of return on plan assets	**1.0 %**	1.0 %
Method of attributing the projected benefit obligations to periods of service	**Straight- line basis**	Straight- line basis
Amortization of prior service costs	**Expensed in the year of occurrence**	Expensed in the year of occurrence
Amortization of unrecognized actuarial differences	**5 years**	5 years

11. Income Taxes

The Company and its domestic subsidiaries are subject to several taxes based on income, which in the aggregate resulted in the statutory income tax rate of approximately 40.69% for the years ended March 31, 2008 and 2007. Foreign subsidiaries are subject to income taxes of the countries in which they operate.

The reconciliation of the statutory income tax rate to the effective income tax rate for the years ended March 31, 2008 and 2007 were as follows:

	2008	2007
Statutory income tax rate	**40.69%**	40.69%
Reconciliation		
Valuation allowance	**5.63**	(34.11)
Nondeductible expenses	**1.99**	13.04
Tax losses carried forward	**(34.37)**	(42.31)
Equity in earnings of subsidiaries and affiliates	**(3.21)**	(9.96)
Other	**(3.98)**	(5.52)
Effective income tax rate	**6.75%**	(38.17)%

At March 31, 2008 and 2007, significant components of deferred tax assets and liabilities were as follows:

	Millions of yen		*Thousands of U.S. dollars*
	2008	2007	***2008***
Deferred tax assets			
Tax losses carried forward	**¥2,484**	¥3,773	***$24,791***
Accrued enterprise tax	**25**	20	***246***
Accrued severance and pension costs for employees	**660**	954	***6,591***
Accrued bonuses	**98**	83	***982***
Allowance for doubtful accounts	**344**	289	***3,438***
Reserve for losses on work in progress	**443**	251	***4,424***
Accrued severance and pension costs for directors and corporate auditors	**78**	58	***783***
Reserve for contingent loss	**221**	260	***2,201***
Loss on write-down of investments	**437**	481	***4,358***
Loss on write-down of inventories	**32**	17	***318***
Impairment losses on fixed assets	**421**	421	***4,206***
Depreciation and amortization	**73**	102	***729***
Other	**245**	220	***2,436***
	5,561	6,929	***55,503***
Less: valuation allowance	**(4,602)**	(5,935)	***(45,929)***
Gross deferred tax assets	**959**	994	***9,574***
Deferred tax liabilities			
Deferred tax liabilities on revaluation of land	**2,174**	2,174	***21,699***
Net unrealized gains on investments in securities	**1,786**	5,156	***17,823***
Gross deferred tax liabilities	**¥3,960**	¥7,330	***$39,522***

12. Selling, General and Administrative Expenses

Selling, General and Administrative expenses for the years ended March 31, 2008 and 2007 comprised of the following:

	Millions of yen		*Thousands of U.S. dollars*
Year ended March 31	**2008**	2007	***2008***
Salaries and benefits	**¥1,196**	¥1,167	***$11,936***
Accrued bonuses	**74**	201	***742***
Pension and severance costs	**155**	122	***1,548***
Accrued retirement benefits for directors and corporate auditors	**52**	39	***520***
Allowance for doubtful accounts	**22**	261	***221***
Other	**2,223**	1,951	***22,182***
	¥3,722	¥3,741	***$37,149***

13. Research and Development Costs

Research and development costs charged to manufacturing costs and selling, general and administrative expenses for the years ended March 31, 2008 and 2007 were ¥428 million ($4,273 thousand) and ¥270 million, respectively.

14. Leases

A. Lessee

Leases that transfer substantially all the risks and rewards of ownership of the assets are accounted for as capital leases. Leases not transferring ownership of the assets at the end of the lease term are accounted for as operating leases, in accordance with accounting principles and practices generally accepted in Japan.

Leased assets under finance leases that do not transfer ownership of the leased assets at the end of the lease term, if capitalized, comprised of the following:

	At March 31, 2008		
	Millions of yen		
	Acquisition cost	Accumulated Depreciation	Net book value
Machinery, equipment and delivery equipment	**¥443**	**¥225**	**¥218**
Tools, furniture and fixtures	**1,598**	**1,350**	**248**
Total	**¥2,041**	**¥1,575**	**¥466**

	At March 31, 2007		
	Millions of yen		
	Acquisition cost	Accumulated Depreciation	Net book value
Machinery, equipment and delivery equipment	¥736	¥556	¥180
Tools, furniture and fixtures	2,222	1,749	473
Total	¥2,958	¥2,305	¥653

	At March 31, 2008		
	Thousands of U.S. dollars		
	Acquisition cost	*Accumulated Depreciation*	*Net book value*
Machinery, equipment and delivery equipment	***$4,420***	***$2,249***	***$2,171***
Tools, furniture and fixtures	***15,952***	***13,475***	***2,477***
Total	***$20,372***	***$15,724***	***$4,648***

The amounts of outstanding future lease payments due at March 31 including the portion of interest thereon are summarized as follows:

	Millions of yen		*Thousands of U.S. dollars*
March 31	**2008**	2007	***2008***
Future lease payment due			
Within one year	**¥228**	¥647	***$2,280***
Over one year	**295**	222	***2,940***
	¥523	¥869	***$5,220***

Lease rental expense on such finance lease contracts for the years ended March 31, 2008 and 2007 were as follows:

	Millions of yen		*Thousands of U.S. dollars*
Year ended March 31	**2008**	2007	***2008***
Lease rental expense	**¥604**	¥623	***$6,024***
Depreciation	**556**	576	***5,546***
Interest expense	**29**	31	***292***

B. Lessor

Finance leases that do not transfer ownership of the leased property to lessor are accounted for as operating leases.

Leased assets under financial leases that are accounted for as operating leases comprise of the following:

	At March 31, 2008		
	Millions of yen		
	Acquisition cost	Accumulated Depreciation	Net book value
Buildings and structures	**¥1,688**	**¥1,591**	**¥97**
Machinery, equipment and delivery equipment	**970**	**583**	**387**
Tools, furniture and fixtures	**4,372**	**1,820**	**2,552**
Total	**¥7,030**	**¥3,994**	**¥3,036**

	At March 31, 2007		
	Millions of yen		
	Acquisition cost	Accumulated Depreciation	Net book value
Buildings and structures	¥2,082	¥1,679	¥403
Machinery, equipment and delivery equipment	1,077	581	496
Tools, furniture and fixtures	3,751	1,161	2,590
Total	¥6,910	¥3,421	¥3,489

	At March 31, 2008		
	Thousands of U.S. dollars		
	Acquisition cost	*Accumulated Depreciation*	*Net book value*
Buildings and structures	***$16,849***	***$15,879***	***$970***
Machinery, equipment and delivery equipment	***9,683***	***5,822***	***3,861***
Tools, furniture and fixtures	***43,635***	***18,160***	***25,475***
Total	***$70,167***	***$39,861***	***$30,306***

The amounts of outstanding future lease revenue due at March 31 including the portion of interest thereon are summarized as follows:

	Millions of yen		*Thousands of U.S. dollars*
March 31	**2008**	2007	***2008***
Future lease revenue due			
Within one year	**¥1,789**	¥1,819	***$17,853***
Over one year	**3,488**	3,581	***34,820***
	¥5,277	¥5,400	***$52,673***

Lease rental revenue, depreciation and interest income equivalent on such finance lease contracts for the years ended March 31, 2008 and 2007 were as follows:

	Millions of yen		*Thousands of U.S. dollars*
Year ended March 31	**2008**	2007	***2008***
Lease rental revenue	**¥1,335**	¥2,218	***$13,324***
Depreciation	**1,159**	1,071	***11,569***
Interest income	**279**	1,147	***2,783***

15. Derivative and Hedging Activities

The Companies use forward currency exchange contracts to hedge against the exchange rate risk associated with monetary receivables and payables denominated in foreign currencies. Interest rate swap transactions or currency swap transactions is used in order to minimize the risk of fluctuation in interest rates on borrowings.

The Companies have established an internal control that includes policies and procedures for risk assessment and for the approval, reporting and monitoring of transactions involving derivative financial instruments. The Companies do not hold or issue derivative financial instruments for speculation purposes.

The Companies are exposed to certain market risks arising from their forward exchange contracts and swap agreements. The Companies are also exposed to the risk of credit loss in the event of non-performance by the counterparties to the currency and interest; however, the Companies do not anticipate non-performance by any of these counterparties, all of whom are financial institutions with high credit ratings.

16. Commitments and Contingent Liabilities

As at March 31, 2008, the Companies were contingently liable for notes receivable discounted and endorsed and guarantees of loans made to unconsolidated subsidiaries and affiliates as follows:

March 31, 2008	Millions of yen	*Thousands of U.S. dollars*
Guarantees of loans from banks	**¥1,678**	***$16,753***

17. Segment Information

(1) Industry Segment Information

The operations of the Company and its consolidated subsidiaries for the years ended March 31, 2008 and 2007 were summarized by product group as follows:

Year ended March 31, 2008	Millions of yen							
	Material Handling Systems Division	Plant & Machinery Division	Building Construction Division	Real Estate Utilizing Division	Other	Sub Total	Elimination or Corporate Assets*	Consolidated Total
Sales								
Sales to external customers	**¥15,243**	**¥23,355**	**¥5,756**	**¥581**	**¥4,850**	**¥49,785**	**¥ -**	**¥ 49,785**
Inter-segment sales	**-**	**-**	**(1)**	**139**	**913**	**1,051**	**(1,051)**	**-**
Total	**15,243**	**23,355**	**5,755**	**720**	**5,763**	**50,836**	**(1,051)**	**49,785**
Operating costs and expenses	**14,839**	**20,128**	**5,618**	**399**	**5,814**	**46,798**	**(699)**	**46,099**
Operating income	**404**	**3,227**	**137**	**321**	**(51)**	**4,038**	**(352)**	**3,686**
Assets	**11,794**	**17,963**	**8,110**	**4,592**	**9,217**	**51,676**	**7,383**	**59,059**
Depreciation	**150**	**171**	**9**	**134**	**1,290**	**1,754**	**22**	**1,776**
Capital expenditure	**58**	**482**	**16**	**2**	**903**	**1,461**	**55**	**1,516**

Year ended March 31, 2007	Millions of yen							
	Material Handling Systems Division	Plant & Machinery Division	Building Construction Division	Real Estate Utilizing Division	Other	Sub Total	Elimination or Corporate Assets*	Consolidated Total
Sales								
Sales to external customers	¥17,316	¥17,029	¥5,944	¥521	¥4,738	¥45,548	¥ -	¥ 45,548
Inter-segment sales	84	-	(1)	138	870	1,091	(1,091)	-
Total	17,400	17,029	5,943	659	5,608	46,639	(1,091)	45,548
Operating costs and expenses	16,696	15,935	5,799	413	5,569	44,412	(751)	43,661
Operating income	704	1,094	144	246	39	2,227	(340)	1,887
Assets	12,036	17,579	13,336	4,766	10,128	57,845	11,157	69,002
Depreciation	141	122	9	125	1,102	1,499	17	1,516
Capital expenditure	264	324	54	27	1,607	2,276	(13)	2,263

* Major products of each division are as follows:

Material Handling Systems Division……. material handling systems for delivery, sorting, control and various type of convey instruments
Plant & Machinery Division……….……. storage tanks for LNG, LPG, crude oil and other gas/liquid
Building Construction Division…………. apartment house, office building, shop building and warehouse building
Real Estate Utilizing Division…………… real estate rental
Other………………………………..……. leasing etc.

* Corporate assets consist of cash on hand and at bank, investments in securities and the assets belonging to the administration department of the Company. Corporate assets at March 31, 2008 and 2007 were ¥9,665 million ($ 96,468 thousand) and ¥12,248 million, respectively.

* As previously mentioned in 3.*(7) Property, Plant and Equipment* (page14), the Company and its domestic consolidated subsidiaries changed the depreciation method for property, plant and equipment acquired on or after April 1, 2007 in accordance with the revised Corporation Tax Law.
Among property, plant and equipment acquired before April 1, 2007, those depreciated to the allowable limit have been depreciated the difference between the 5% amount of acquisition cost and minimal reminder amount on a straight-line basis over a period of five years.
The impact of this change for segment information is immaterial.

Year ended March 31, 2008	*Thousands of U.S. dollars*							
	Material Handling Systems Division	*Plant & Machinery Division*	*Building Construction Division*	*Real Estate Utilizing Division*	*Other*	*Sub Total*	*Elimination or Corporate Assets**	*Consolidated Total*
Sales								
Sales to external customers	***$152,139***	***$233,111***	***$57,449***	***$5,803***	***$48,400***	***$496,902***	***$ -***	***$496,902***
Inter-segment sales	***-***	***-***	***(11)***	***1,381***	***9,117***	***10,487***	***(10,487)***	***-***
Total	***152,139***	***233,111***	***57,438***	***7,184***	***57,517***	***507,389***	***(10,487)***	***496,902***
Operating costs and expenses	***148,104***	***200,899***	***56,070***	***3,982***	***58,033***	***467,088***	***(6,979)***	***460,109***
Operating income	***4,035***	***32,212***	***1,368***	***3,202***	***(516)***	***40,301***	***(3,508)***	***36,793***
Assets	***117,713***	***179,289***	***80,941***	***45,834***	***92,001***	***515,778***	***73,694***	***589,472***
Depreciation	***1,495***	***1,704***	***88***	***1,337***	***12,887***	***17,511***	***220***	***17,731***
Capital expenditure	***580***	***4,813***	***155***	***18***	***9,014***	***14,580***	***553***	***15,133***

(2) Geographic Segment Information

Segment information classified by geographic area is not presented because the majority of the Companies' operations are conducted in Japan.

(3) Export sales and sales by overseas subsidiaries

	Millions of yen			
Year ended March 31, 2008	South-east Asia	Middle East	Other	Total
Overseas sales	**¥7,336**	**¥5,056**	**¥3,508**	**¥15,900**
Consolidated Sales	**-**	**-**	**-**	**¥49,785**
Ratio	**14.7%**	**10.2%**	**7.0%**	**31.9%**

	Millions of yen			
Year ended March 31, 2007	South-east Asia	Middle East	Other	Total
Overseas sales	¥7,713	¥4,822	¥1,718	¥14,253
Consolidated sales	-	-	-	¥45,548
Ratio	16.9%	10.6%	3.8%	31.3%

	Thousand of U.S. dollars			
Year ended March 31, 2008	*South -east Asia*	*Middle East*	*Other*	*Total*
Overseas sales	***$73,221***	***$50,463***	***$35,017***	***$158,702***
Consolidated sales	***-***	***-***	***-***	***$496,902***
Ratio	***14.7%***	***10.2%***	***7.0%***	***31.9%***

* Major countries included in the above geographic areas were as follows:
South-east Asia:….. Indonesia, Vietnam
Middle East:……….Yemen, Iran
Other: ……………..Algeria, China

18. Related Party Transactions

Material transactions of the Company with its related companies and individuals, excluding transactions with consolidated subsidiaries which are eliminated in the consolidated financial statements and other than those disclosed elsewhere in these financial statements, for the years ended March 31, 2008 and 2007 were as follows:

				Millions of yen / Thousands of U.S. dollars					
				Transactions			Balances		
					Year ended March 31			At March 31	
Name of Related Company	Paid-in Capital	Principal Business	Equity Ownership Percentage by the Company	Description of the Company's Transactions	**2008**	2007	Account	**2008**	2007
Toyo Koken K.K.	¥897 million	Production and sale of electric-driven winches	39%	Loans made	-	-	Short-term loans	**¥119** ***$1,192***	¥113
					-	-	Long-term loans	**¥960** ***$9,584***	¥1,087
Toyo Miyama Co., Ltd.	¥100 million	Architectural business	49%	Guarantee obligation	**¥1,600** ***$15,970***	¥1,600			
Toyo Kanetsu (Malaysia) Sdn.Bhd.	MYR2,000 thousand	Material Handling Systems business	49%	Redemption of stock	**-**	¥232			

The terms and conditions of the above transactions are on an arm's-length basis.

ERNST & YOUNG SHINNIHON

Report of Independent Auditors

The Board of Directors of Toyo Kanetsu KabushikiKaisya

We have audited the accompanying consolidated balance sheet of Toyo Kanetsu Kabushiki Kaisya and consolidated subsidiaries as of March 31, 2008, and the related consolidated statements of operations, changes in net assets, and cash flows for the year then ended, all expressed in yen. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit. The consolidated balance sheet of Toyo Kanetsu Kabushiki Kaisya and consolidated subsidiaries as of March 31, 2007,and the related consolidated statements of operations,changes in net assets,and cash flows for the year then ended were audited by other auditor whose report dated June 28, 2007, expressed an unqualified opinion on those financial statements.

We conducted our audit 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 audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Toyo Kanetsu Kabushiki Kaisya and consolidated subsidiaries at March 31, 2008, and the consolidated results of their operations and their cash flows for the year then ended in conformity with accounting principles generally accepted in Japan.

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 4.

Ernst & Young ShinNihon

June 27, 2008

Corporate Data

Head Office
19-20, Higashisuna 8-Chome, Koto-ku,
Tokyo 136-8666, Japan
Tel : +81-3-5857-3333
Fax: +81-3-5857-3170
URL: http://www.toyokanetsu.co.jp

Date of Establishment
16th May, 1941

Common Stock

Authorized	: 297,000,000
Issued	: 138,730,741

Security Traded
Tokyo Stock Exchange Market, 1st Section

Transfer Agent and Registrar
The Mitsubishi UFJ Trust and Banking Corporation
4-5, Marunouchi 1-Chome, Chiyoda-ku,
Tokyo 100-8212, Japan

Annual Meeting
The annual Meeting of Shareholders is normally held in June in Tokyo, Japan

Offices, Subsidiaries and Affiliates

Domestic Offices

Toyo Kanetsu K.K. Osaka Sales Office
1-9-2, Senrioka-Higashi, Settsu, Osaka 566-0011, Japan
Tel: +81-72-645-2520 Fax: +81-72-645-2532

Toyo Kanetsu K.K. Chiba Plant
2 Tsukiji, Kisarazu, Chiba 292-0835, Japan
Tel: +81-438-36-7161 Fax: +81-438-36-8211

Domestic Subsidiaries & Affiliates

Toyo Kanetsu Solutions K.K.
19-20, Higashisuna 8-chome, Koto-ku, Tokyo 136-8666, Japan
Tel: +81-3-5857-3126 Fax: +81-3-5857-3185

K-Techno Inc.
19-20, Higashisuna 8-chome, Koto-ku, Tokyo 136-8666, Japan
Tel: +81-3-5857-3155 Fax: +81-3-5857-7248

TKL Co., Ltd.
19-20, Higashisuna 8-chome, Koto-ku, Tokyo 136-8666, Japan
Tel: +81-3-3640-5164 Fax: +81-3-3644-1399

Toyo Service System K.K.
19-20, Higashisuna 8-chome, Koto-ku, Tokyo 136-8666, Japan
Tel: +81-3-5690-7778 Fax: +81-3-5690-7775

Global Eight Corporation
19-20, Higashisuna 8-chome, Koto-ku, Tokyo 136-8666, Japan
Tel: +81-3-3699-1601 Fax: +81-3-3699-4330

Toyo Koken K.K.
19-20, Higashisuna 8-chome, Koto-ku, Tokyo 136-8666, Japan
Tel: +81-3-5857-3161 Fax: +81-3-5857-3198

Toyo Miyama Co., Ltd.
2 Tsukiji, Kisarazu, Chiba 292-0835, Japan
Tel: +81-438-37-2233 Fax: +81-438-37-2201

Overseas Subsidiaries & Affiliates

P.T. Toyo Kanetsu Indonesia
(Jakarta Head Office)
Midplaza Building 1, 8th Floor, Jl. Jend. Sudirman Kav. 10-11, Jakarta 10220, Indonesia
Tel: +62 (21) 570-7805 / 7739 Fax: +62 (21) 570-3950

Toyo Kanetsu (Malaysia) Sdn. Bhd.
Sublot 51, 1st Floor, Medan Jaya Commercial Centre,
97000 Bintulu, Sarawak, Malaysia
Tel: +60 (86) 338122 Fax: +60 (86) 338123

Al Ghallilah Engineering & Construction L.L.C.
P.O. Box 121, Postal Code 118, Al Harthy Complex, Sultanate of Oman

TOYO KANETSU K.K.
http://www.toyokanetsu.co.jp