

Notes to Consolidated Financial Statements

NIKKISO CO., LTD. AND CONSOLIDATED SUBSIDIARIES
For the years ended March 31, 2009 and 2008

1. BASIS OF PRESENTING CONSOLIDATED FINANCIAL STATEMENTS

The accompanying consolidated financial statements have been prepared in accordance with the provisions set forth in the Japanese Financial Instruments and Exchange Act (formerly, 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.

In preparing these consolidated financial statements, certain reclassifications and rearrangements have been made to the consolidated financial statements issued domestically in order to present

them in a form which is more familiar to readers outside Japan. In addition, certain reclassifications have been made in the 2008 consolidated financial statements to conform to the classifications used in 2009.

The consolidated financial statements are stated in Japanese yen, the currency of the country in which Nikkiso Co., Ltd. (the "Company") is incorporated and operates. The translations of Japanese yen amounts into U.S. dollar amounts are included solely for the convenience of readers outside Japan and have been made at the rate of ¥98 to \$1, the approximate rate of exchange at March 31, 2009. Such translations should not be construed as representations that the Japanese yen amounts could be converted into U.S. dollars at that or any other rate.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(1) Consolidation

The consolidated financial statements as of March 31, 2009 include the accounts of the Company and its 21 (20 in 2008) significant subsidiaries (together, the "Group").

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

Investments in six affiliated companies are accounted for by the equity method. Investments in the remaining unconsolidated subsidiaries and affiliated companies are stated at cost. If the equity method of accounting had been applied to the investments in these companies, the effect on the accompanying consolidated financial statements would not be material.

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

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

In May 2006, the Accounting Standards Board of Japan (the "ASBJ") issued ASBJ Practical Issues Task Force (PITF) No.18, "Practical Solution on Unification of Accounting Policies Applied to Foreign Subsidiaries for the Consolidated Financial Statements". PITF No.18 prescribes: (1) the accounting policies and procedures applied to a parent company and its subsidiaries for similar transactions and events under similar circumstances should in principle be unified for the preparation of the consolidated financial statements, (2) financial statements prepared by foreign subsidiaries in accordance with either International Financial Reporting Standards or the generally accepted accounting principles in the United States of America tentatively may be used for the consolidation process, (3) however, the following items should be adjusted in the consolidation process so that net income is accounted for in accordance with Japanese GAAP unless they are not material: 1) amortization of goodwill; 2) scheduled amortization of actuarial gain or loss of pensions that has been directly recorded in the equity; 3) expensing capitalized development costs of R&D; 4) cancellation of the fair value model of accounting for property, plant, and equipment and investment properties and incorporation of the cost model of accounting; 5) recording the prior years' effects of changes in accounting policies in the income statement where retrospective adjustments to financial statements have been incorporated; and 6) exclusion of minority interests from net income, if included. PITF No.18 was effective for fiscal years beginning on or after April 1, 2008 with early adoption permitted.

The Company applied this accounting standard effective April 1, 2008. The effect of this change was to decrease operating income and income before income taxes and minority interests respectively by ¥93 million (\$951 thousand), and to increase net income by ¥81 million (\$836 thousand), for the year ended March 31, 2009. In addition, the Company adjusted the beginning balance of retained earnings at April 1, 2008 as if this accounting standard had been retrospectively applied. The effect on segment information is described in Note 18.

(3) Business Combination

In October 2003, the Business Accounting Council (BAC) issued a

Statement of Opinion, "Accounting for Business Combinations", and in December, 2005 ASBJ issued ASBJ Statement No.7, "Accounting Standard for Business Divestitures" and ASBJ Guidance No.10, "Guidance for Accounting Standard for Business Combinations and Business Divestitures".

The accounting standard for business combinations allows companies to apply the pooling of interests method of accounting only when certain specific criteria are met such that the business combination is essentially regarded as a uniting-of-interests.

For business combinations that do not meet the uniting-of-interests criteria, the business combination is considered to be an acquisition and the purchase method of accounting is required. This standard also prescribes the accounting for combinations of entities under common control and for joint ventures.

(4) Cash equivalents

Cash equivalents are short-term investments that are readily convertible into cash and that are exposed to insignificant risk of changes in value.

Cash equivalents include time deposits, certificate of deposits, commercial paper and bond funds, all of which mature or become due within three months of the date of acquisition.

(5) Inventories

Prior to April 1 2008, inventories were stated at cost, determined by the moving-average method with the exception of certain finished products and work in process by the specific identification method. In July 2006, the ASBJ issued ASBJ Statement No.9, "Accounting Standard for Measurement of Inventories". This standard requires that inventories held for sale in the ordinary course of business be measured at the lower of cost or net selling value, which is defined as the selling price less additional estimated manufacturing costs and estimated direct selling expenses. The replacement cost may be used in place of the net selling value, if appropriate. The standard also requires that inventories held for trading purposes be measured at the market price. The standard was effective for fiscal years beginning on or after April 1, 2008 with early adoption permitted.

The Company applied this new accounting standard for measurement of inventories effective April 1, 2008. The effect of this change was to decrease operating income by ¥70 million (\$712 thousand) and income before income taxes and minority interests by ¥73 million (\$747 thousand), for the year ended March 31, 2009, respectively. The effect on segment information is described in Note 18.

(6) Marketable and Investment Securities

Marketable and investment securities are classified and accounted for, depending on management's intent, as follows:

i) held-to-maturity debt securities, which are expected to be held to maturity with the positive intent and ability to held to maturity are reported at amortized cost and ii) marketable available-for-sale securities, which are not classified as the aforementioned securities, are reported at fair value, with unrealized gains and losses, net of applicable taxes, reported in a separate component of equity. Non-marketable available-for-sale securities are stated at cost determined by the moving-average method.

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

(7) Property, Plant and Equipment

Property, plant and equipment are stated at cost. Depreciation of property, plant and equipment of the Company and its consolidated domestic subsidiaries is computed substantially by the declining-balance method based on the estimated useful lives of the assets. The straight-line method is applied to certain buildings of the Company and its consolidated domestic subsidiaries, and all property, plant and equipment of consolidated foreign subsidiaries. The range of useful lives is principally from 3 to 50 years for buildings and structures, from 4 to 8 years for machinery and equipment and 2 to 20 years for furniture and fixtures.

Under certain conditions such as exchanges of fixed assets of similar kinds and cash subsidies granted from governmental or municipal authorities, Japanese tax laws permit an entity to defer the recognition of profit arising from such transactions by reducing the cost of the assets acquired or by providing a special reserve in the equity section.

The reduction of the cost of the assets as of March 31, 2009 and 2008 were ¥990 million (\$10,103 thousand) and ¥916 million, respectively, and the special reserve in the equity section as a part of retained earnings as of March 31, 2009 and 2008, respectively, is ¥377 million (\$3,846 thousand).

(8) Long-lived assets

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

(9) Goodwill

Goodwill, which was recognized by the Group, is subject to amortization over a period not to exceed 20 years and a test for impairment.

(10) Retirement and Pension Plans

The Company and certain domestic consolidated subsidiaries have non-contributory defined benefit pension plans. The Group accounts for the liability for employees' retirement benefits based on the projected benefit obligations and plan assets at the balance sheet date. Certain consolidated subsidiaries have defined contribution pension plans.

(11) Retirement Allowances for Directors and Corporate Auditors

Retirement benefits to directors and corporate auditors under the unfunded retirement allowance plans were provided at the amount that would be required if all directors and corporate auditors of the Company and certain domestic subsidiaries retired at the balance sheet date.

However, effective the date of the stockholders' meeting of the Company in 2007, and of certain domestic subsidiaries in 2008, the unfunded retirement allowance plans were terminated. The outstanding balances of retirement allowances for directors and corporate auditors as of March 31, 2009 and 2008 were ¥52 million (\$530 thousand) and ¥192 million, respectively.

(12) Research and Development Costs

Research and development costs are charged to income as incurred.

(13) Leases

In March 2007, the ASBJ issued ASBJ Statement No.13, "Accounting Standard for Lease Transactions", which revised the previous accounting standard for lease transactions issued in June 1993. The revised accounting standard for lease transactions is effective for fiscal years beginning on or after April 1, 2008 with early adoption permitted for fiscal years beginning on or after April 1, 2007.

Under the previous accounting standard, finance leases that were deemed to transfer ownership of the leased property to the lessee were to be capitalized. However, other finance leases were permitted to be accounted for as operating lease transactions if certain "as if

capitalized" information was disclosed in the notes to the lessee's financial statements. The revised accounting standard requires that all finance lease transactions should be capitalized to recognize lease assets and lease obligations in the balance sheet.

In addition, the revised accounting standard permits leases which existed at the transition date and do not transfer ownership of the leased property to the lessee to be measured at the obligations under finance leases less interest expense at the transition date and recorded as acquisition cost of lease assets.

The Company applied the revised accounting standard effective April 1, 2008. There is no effect on profit and loss by this change, for the year ended March 31, 2009.

(14) Bonuses to directors and corporate auditors

Bonuses to directors and corporate auditors are accrued at the year end to which such bonuses are attributable.

(15) Income taxes

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

(16) Foreign Currency Transactions

All short-term and long-term monetary receivables and payables denominated in foreign currencies are translated into Japanese yen at the exchange rates at the balance sheet date. The foreign exchange gains and losses from translation are recognized in the consolidated income statement.

(17) Foreign Currency Financial Statements

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

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

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

(18) Derivatives and Hedging Activities

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

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

The foreign currency forward contracts employed to hedge foreign exchange exposures are measured at the fair value and the unrealized gains / losses are recognized in income.

The interest rate swaps which qualify for hedge accounting and meet specific matching criteria are not re-measured at market value, but the differential paid or received under the swap agreements are recognized and included in interest expense or income.

(19) Per Share Information

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

Diluted net income per share reflects the potential dilution that could occur if securities were exercised or converted into common stock.

Diluted net income per share of common stock assumes full conversion of the outstanding convertible notes and bonds at the beginning of the year (or at the time of issuance) with an applicable adjustment for related interest expense, net of tax, and full exercise of outstanding warrants.

Diluted net income per share of common stock for the years ended March 31, 2009 is not disclosed because no potentially dilutive shares have been issued.

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

(20) New Accounting Pronouncements

Business Combinations—On December 26, 2008, the ASBJ issued a revised accounting standard for business combinations, ASBJ Statement No.21, “Accounting Standard for Business Combinations.” Major accounting changes under the revised accounting standard are as follows;

(1) The current accounting standard for business combinations allows companies to apply the pooling of interests method of accounting when certain specific criteria are met such that the business combination is essentially regarded as a uniting-of-interests. The revised standard requires to accounting for such business combination by the purchase method and the pooling of interests method of accounting is no longer allowed.

(2) The current accounting standard requires the research and development costs to be charged to income as incurred. Under the revised standard, an in-process research and development (IPR&D) acquired by the business combination is capitalized as an intangible asset.

(3) The current accounting standard requires a bargain purchase gain (negative goodwill) to be systematically amortized within 20 years. Under the revised standard, the acquirer recognizes a bargain purchase gain in profit or loss on the acquisition date after reassessing whether it has correctly identified all of the assets acquired and all of the liabilities assumed with a review of such procedures used.

This standard is applicable to business combinations undertaken on or after April 1, 2010 with early adoption permitted for fiscal years beginning on or after April 1, 2009.

Unification of Accounting Policies Applied to Foreign Associated Companies for the Equity Method—The current accounting standard requires unification of accounting policies within the consolidation group. However, the current guidance allows application of the equity method for the financial statements of its foreign associated company which have been prepared in accordance with generally accepted accounting principles in their respective jurisdictions without unification of accounting policies.

On December 26, 2008, the ASBJ issued ASBJ Statement No.16 (Revised 2008), “Revised Accounting Standard for Equity Method of Accounting for Investments”. The new standard requires adjustments to be made to conform the associate’s accounting policies for similar transactions and events under similar circumstances to those of the parent company when the associate’s financial statements are used in applying the equity method unless it is impracticable to determine adjustments. In addition, financial statements prepared by foreign associated companies in accordance with either International Financial Reporting Standards or the generally accepted accounting principles in the United States tentatively may be used in applying the equity method if the following items are adjusted so that net income is accounted for in accordance with Japanese GAAP unless they are not material: 1) amortization of goodwill; 2) scheduled amortization of actuarial gain or loss of pensions that

has been directly recorded in the equity; 3) expensing capitalized development costs of R&D; 4) cancellation of the fair value model of accounting for property, plant, and equipment and investment properties and incorporation of the cost model of accounting; 5) recording the prior years’ effects of changes in accounting policies in the income statement where retrospective adjustments to the financial statements have been incorporated; and 6) exclusion of minority interests from net income, if included. This standard is applicable to equity method of accounting for investments effective on or after April 1, 2010 with early adoption permitted for fiscal years beginning on or after April 1, 2009.

Asset Retirement Obligations—On March 31, 2008, the ASBJ published a new accounting standard for asset retirement obligations, ASBJ Statement No.18 “Accounting Standard for Asset Retirement Obligations” and ASBJ Guidance No.21 “Guidance on Accounting Standard for Asset Retirement Obligations”. Under this accounting standard, an asset retirement obligation is defined as a legal obligation imposed either by law or contract that results from the acquisition, construction, development and the normal operation of a tangible fixed asset and is associated with the retirement of such tangible fixed asset.

The asset retirement obligation is recognized as the sum of the discounted cash flows required for the future asset retirement and is recorded in the period in which the obligation is incurred if a reasonable estimate can be made. If a reasonable estimate of the asset retirement obligation cannot be made in the period the asset retirement obligation is incurred, the liability should be recognized when a reasonable estimate of asset retirement obligation can be made. Upon initial recognition of a liability for an asset retirement obligation, an asset retirement cost is capitalized by increasing the carrying amount of the related fixed asset by the amount of the liability. The asset retirement cost is subsequently allocated to expense through depreciation over the remaining useful life of the asset. Over time, the liability is accreted to its present value each period. Any subsequent revisions to the timing or the amount of the original estimate of undiscounted cash flows are reflected as an increase or a decrease in the carrying amount of the liability and the capitalized amount of the related asset retirement cost. This standard is effective for fiscal years beginning on or after April 1, 2010 with early adoption permitted for fiscal years beginning on or before March 31, 2010.

Construction Contracts—Under the current Japanese GAAP, either the completed-contract method or the percentage-of-completion method is permitted to account for construction contracts. In December 2007, the ASBJ issued a new accounting standard for construction contracts. Under this new accounting standard, construction revenue and construction costs should be recognized by the percentage-of-completion method, if the outcome of a construction contract can be estimated reliably.

When total construction revenue, total construction costs and the stage of completion of the contract at the balance sheet date can be reliably measured, the outcome of a construction contract can be estimated reliably. If the outcome of a construction contract cannot be reliably estimated, the completed-contract method shall be applied. When it is probable that total construction costs will exceed total construction revenue, an estimated loss on the contract should be immediately recognized by providing for loss on construction contracts. This standard is applicable to construction contracts and software development contracts and effective for fiscal years beginning on or after April 1, 2009 with early adoption permitted for fiscal years beginning on or before March 31, 2009 but after December 27, 2007.

3. ACCOUNTING CHANGES

Change of Inventory Costing for the Fluid Technology Unit in 2008

Prior to April 1, 2007, the Company’s inventory costing for the Fluid Technology Unit was by the process costing method. Effective April 1, 2007, however, the Company changed its method of inventory costing for the Fluid Technology Unit to the job costing method since the newly

developed accounting system of the Company allows the job costing method instead of the process costing method, which provides better matching of sales and cost of sales for the Fluid Technology Unit. The effect of this change was to increase the balance of inventory as of March 31, 2008, operating income and income before income taxes and minority interests respectively, for the year ended March 31, 2008, by ¥456 million.

4. SHORT-TERM INVESTMENTS

Short-term investments as of March 31, 2009 and 2008 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2009	2008	2009
Time deposits	¥418	¥264	\$4,266
Total	¥418	¥264	\$4,266

5. MARKETABLE AND INVESTMENT SECURITIES

Marketable and investment securities as of March 31, 2009 and 2008 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2009	2008	2009
Non-current:			
Equity securities	¥6,056	¥8,617	\$61,797
Trust fund investments and other	31	51	314
Total	¥6,087	¥8,668	\$62,111

The carrying amounts and aggregate fair values of marketable and investment securities at March 31, 2009 and 2008 were as follows:

March 31, 2009

	Millions of Yen			
	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Securities classified as:				
Available-for-sale:				
Equity securities	¥5,866	¥1,343	¥1,186	¥6,023

March 31, 2008

	Millions of Yen			
	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Securities classified as:				
Available-for-sale:				
Equity securities	¥6,670	¥2,394	¥972	¥8,092

March 31, 2009

	Thousands of U.S. Dollars			
	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Securities classified as:				
Available-for-sale:				
Equity securities	\$59,854	\$13,701	\$12,095	\$61,460

Available-for-sale securities whose fair value is not readily determinable as of March 31, 2009 and 2008 were as follows:

	Carrying amount		Thousands of U.S. Dollars
	Millions of Yen		
	2009	2008	2009
Available-for-sale:			
Equity securities	¥33	¥525	\$337
Other	31	55	314
Total	¥64	¥580	\$651

6. INVENTORIES

Inventories as of March 31, 2009 and 2008 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2009	2008	2009
Merchandise	¥2,295	¥2,751	\$23,415
Finished products	2,476	2,554	25,262
Work in process	6,293	3,075	64,211
Raw materials and supplies	3,134	6,209	31,985
Total	¥14,198	¥14,589	\$144,873

7. LONG-LIVED ASSETS

The Group reviewed its long-lived assets for impairment. No impairment loss was recognized in 2009 and 2008.

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

Short-term bank loans at March 31, 2009 and 2008 consisted of notes to banks and bank overdrafts, with weighted average interest rates of 1.96% and 2.46%, respectively.

Long-term debt at March 31, 2009 and 2008 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2009	2008	2009
Unsecured loans from banks and other financial institutions due serially to 2015 with interest rates of Tokyo Interbank Offered Rate plus a certain spread ranging from 1.4% to 7.0% (2008 and 2009)	¥17,172	¥16,126	\$175,223
1.73% yen unsecured straight bonds, due 2012	6,000	6,000	61,225
Lease obligations	359		3,659
Total	23,531	22,126	240,107
Less current portion	(2,221)	(1,841)	(22,660)
Long-term debt, less current portion	¥21,310	¥20,285	\$217,447

Annual maturities of long-term debt at March 31, 2009 were as follows:

Year ending March 31	Millions of Yen	Thousands of U.S. Dollars
2010	¥2,221	\$22,660
2011	2,185	22,294
2012	2,146	21,898
2013	13,124	133,915
2014	3,617	36,912
2015	238	2,428
Total	¥23,531	\$240,107

The carrying amounts of assets pledged as collateral for short-term bank loans of ¥740 million (\$7,551 thousand) as of March 31, 2009 were as follows:

	Millions of Yen	Thousands of U.S. Dollars
Land	¥41	\$416
Buildings and structures	2,636	26,901
Machinery and equipment	703	7,174
Total, net of accumulated depreciation	¥3,380	\$34,491

9. EMPLOYEES' RETIREMENT AND PENSION PLANS

The Company and certain of its consolidated subsidiaries have non-contributory defined benefit plans for employees.

Under most circumstances, employees terminating their employment are entitled to retirement benefits determined based on the rate of pay at the time of termination, years of service and certain other factors. These retirement benefits are comprised of a lump-sum severance payment from the Company or consolidated subsidiaries together with annuity payments from trustees. Employees are entitled to larger payments if the termination is involuntary such as when it results from retirement at the mandatory retirement age or death, but not for employees who take voluntary retirement at certain specific ages prior to the mandatory retirement age.

The liability for employees' retirement benefits at March 31, 2009 and 2008 consisted of the followings:

	Millions of Yen		Thousands of U.S. Dollars
	2009	2008	2009
Projected benefit obligation	¥16,040	¥15,737	\$163,673
Fair value of plan assets	(11,809)	(12,929)	(120,499)
Unrecognized prior service cost	793	1,071	8,091
Unrecognized actuarial loss	(5,844)	(4,430)	(59,633)
Prepaid pension expense	1,035	770	10,566
Liability	¥215	¥219	\$2,198

The components of net periodic retirement benefit costs for the years ended March 2009 and 2008 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2009	2008	2009
Service cost	¥569	¥500	\$5,809
Interest cost	369	346	3,766
Expected return on plan assets	(256)	(263)	(2,610)
Recognized actuarial loss	742	530	7,569
Amortization of prior service cost	(278)	(278)	(2,836)
Net periodic retirement benefit costs	¥1,146	¥835	\$11,698

Assumptions used for the years ended March 31, 2009 and 2008 were set forth as follows:

	2009	2008
Discount rate	2.4%	2.4%
Expected rate of return on plan assets	2.0%	2.0%
Amortization period of prior service cost	10 years	10 years
Recognition period of actuarial gain / loss	10 years	10 years

Certain consolidated subsidiaries have defined contribution pension plans.

10. EQUITY

Since May 1, 2006, Japanese companies have been subject to the Companies Act of Japan (the "Companies Act"). The significant provisions in the Companies Act that affect financial and accounting matters are summarized below :

(a) Dividends

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

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

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

(b) Increases / decreases and transfer of common stock, reserve and surplus

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

(c) Treasury stock and treasury stock acquisition rights

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

Under the Companies Act, stock subscription rights are presented as a separate component of equity.

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

11. INCOME TAXES

The Company and its domestic subsidiaries are subject to Japanese national and local income taxes which, in the aggregate, resulted in a normal effective statutory tax rate of approximately 40.7% for the years ended March 31, 2009 and 2008, respectively.

The tax effects of significant temporary differences and tax loss carryforwards which resulted in deferred tax assets and liabilities at March 31, 2009 and 2008 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2009	2008	2009
Deferred tax assets:			
Inventories	¥91	¥325	\$931
Accrued bonuses to employees	601	738	6,132
Accrued business taxes	12	138	124
Tax loss carryforwards	540	418	5,511
Investment securities	31	467	320
Liability for employees' retirement benefits	25	24	258
Others	302	360	3,086
Less valuation allowance	(88)	(906)	(901)
Total	¥1,514	¥1,564	\$15,461
Deferred tax liabilities:			
Business taxes refunded	76		777
Unrealized gain on available-for-sale securities	64	579	654
Reserve for deferred income on fixed assets	259	259	2,639
Prepaid pension expense	421	313	4,300
Total	¥820	¥1,151	\$8,370
Net deferred tax assets	¥694	¥413	\$7,091

A reconciliation between the effective statutory tax rate and the actual effective tax rate reflected in the accompanying consolidated statements of income for the years ended March 31, 2009 and 2008 was as follows:

	2009	2008
Effective statutory tax rate	40.7%	40.7%
Expenses not deductible for income tax purposes	5.0	1.7
Inhabitants' tax-per capita levy	2.5	0.9
Dividend income, non-taxable	0.5	0.1
Equity in earnings of affiliated companies	(2.5)	(0.7)
Variance of tax rate for consolidated subsidiaries	(1.8)	(1.7)
(Decrease) increase in valuation allowance	(9.6)	5.0
Tax credit for research and development costs of domestic companies	(5.5)	(2.0)
Unrecognizable amount of tax effects unrealized profit	9.7	
Others, net	(0.1)	1.6
Actual effective tax rate	38.9%	45.6%

As of March 31, 2009, certain subsidiaries had tax loss carryforwards aggregating to approximately 1,287 million (\$13,134 thousand) which are available to be offset against taxable income of such subsidiaries in future years. These tax loss carryforwards of 168 million (\$1,712 thousand), if not utilized, will expire as follows:

Year ending March 31	Millions of Yen	Thousands of U.S. Dollars
2012	¥7	\$68
2013	27	273
2014	62	630
2020	42	439
2027	30	302
Total	¥168	\$1,712

Remaining tax loss carryforwards of 1,119million (\$11,422 thousand) do not have an expiration date.

12. RESEARCH AND DEVELOPMENT COSTS

Research and development costs charged to income were ¥1,013 million (\$10,334 thousand) and ¥845 million for the years ended March 31, 2009 and 2008, respectively.

13. LEASES

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

Total lease and rental expenses for the years ended March 31, 2009 and 2008 were ¥1,108 million (\$11,310 thousand) and ¥1,163 million. The lease payments under finance leases was ¥110 million for the years ended March 31, 2008.

Pro forma information of leased property such as acquisition costs, accumulated depreciation, obligations under finance leases, depreciation expense, interest expense of finance leases that do not transfer ownership of the leased property to the lessee on an "as if capitalized" basis for the years ended March 31,2008 was as follows:

	Millions of Yen			
	2008			
	Machinery and Equipment	Furniture and Fixtures	Software	Total
Acquisition cost	¥27	¥424	¥201	¥652
Accumulated depreciation	12	200	62	275
Net leased property	¥15	¥224	¥139	¥377

Obligations under finance leases :

	Millions of Yen
	2008
Due within one year	¥118
Due after one year	259
Total	¥377

The imputed interest expense is included in the above obligations under finance leases.

17. SUBSEQUENT EVENTS

(1) Appropriations of Retained Earnings

At the Company's Board of Directors held on May 21 2009, the Company's Board of Directors approved the following:

	Millions of Yen	Thousands of U.S. Dollars
Year-end cash dividends, ¥6.00 (\$0.06) per share	¥376	\$3,834

18. SEGMENT INFORMATION

The Group operates in the following industry segments:

Industrial Division consists of production, sale and maintenance of industrial pumps, water conditioning equipment, carbon fiber reinforced plastics and other various industrial equipment.

Medical Division consists of production, sale and maintenance of artificial kidney machines, dialyzers, blood tubings and powder dialysate.

Information about industry segments, geographical segments and sales to foreign customers of the Group for the years ended March 31, 2009 and 2008, was as follows:

(1) Industry Segments

a. Sales and Operating Income

	Millions of Yen			
	2009			
	Industrial Division	Medical Division	Eliminations/Corporate	Consolidated
Sales to customers	¥35,000	¥37,395	¥	¥72,395
Operating expenses	31,186	33,730	2,708	67,624
Operating income	¥3,814	¥3,665	¥(2,708)	¥4,771

b. Total Assets, Depreciation and Capital Expenditures

	Millions of Yen			
	2009			
	Industrial Division	Medical Division	Eliminations/Corporate	Consolidated
Total assets	¥35,825	¥26,016	¥21,847	¥83,688
Depreciation	1,459	1,513	201	3,173
Capital expenditures	1,204	1,710	205	3,119

a. Sales and Operating Income

	Thousands of U.S. Dollars			
	2009			
	Industrial Division	Medical Division	Eliminations/Corporate	Consolidated
Sales to customers	\$357,139	\$381,590	\$	\$738,729
Operating expenses	318,219	344,190	27,632	690,041
Operating income	\$38,920	\$37,400	\$(27,632)	\$48,688

b. Total Assets, Depreciation and Capital Expenditures

	Thousands of U.S. Dollars			
	2009			
	Industrial Division	Medical Division	Eliminations/Corporate	Consolidated
Total assets	\$365,562	\$265,470	\$222,924	\$853,956
Depreciation	14,887	15,435	2,057	32,379
Capital expenditures	12,282	17,453	2,093	31,828

a. Sales and Operating Income

	Millions of Yen			
	2008			
	Industrial Division	Medical Division	Eliminations/Corporate	Consolidated
Sales to customers	¥34,226	¥38,306	¥	¥72,532
Operating expenses	29,155	33,844	2,625	65,624
Operating income	¥5,071	¥4,462	¥(2,625)	¥6,908

b. Total Assets, Depreciation and Capital Expenditures

Millions of Yen

	2008			
	Industrial Division	Medical Division	Eliminations/Corporate	Consolidated
Total assets	¥37,171	¥29,202	¥24,784	¥91,157
Depreciation	968	1,296	147	2,411
Capital expenditures	2,765	2,743	161	5,669

As discussed in Note 2(2), the Company applied PITF No 18 “Practical Solution on Unification of Accounting Policies Applied to Foreign Subsidiaries for the Consolidated Financial Statements” issued by ASBJ in May, 2006. The effect of this change was to decrease the operating income of the Industrial Division by ¥87 million (\$884 thousand), and of the Medical Division by ¥6 million (\$67 thousand) for the year ended March 31, 2009.

As discussed in Note 2(5), the Company applied ASBJ Statement No 9 “Accounting Standard for Measurement of Inventories” issued by ASBJ in July, 2006. The effect of this change was to decrease the operating income of the Industrial Division by ¥28 million (\$286 thousand), and of the Medical Division by ¥42 million (\$426 thousand) for the year ended March 31, 2009.

As discussed in Note 3., effective April 1, 2007, the Company changed its method of inventory costing for the Fluid Technology Unit from the process costing method to the job costing method. The effect of this change was to decrease the operating expenses of the Industrial Division, and increase operating income of such Division by ¥456 million, respectively, for the year ended March 31, 2008.

(2) Geographical Segments

The geographical segments of the Group for the years ended March 31, 2009 and 2008 were summarized as follows:

Millions of Yen

	2009					
	Japan	Asia	North America	Europe	Eliminations/Corporate	Consolidated
Sales to customers	¥61,013	¥3,596	¥1,946	¥5,840	¥	¥72,395
Interarea transfer	5,591	3,522	1,646	5	(10,764)	
Total sales	66,604	7,118	3,592	5,845	(10,764)	72,395
Operating expenses	59,620	6,687	3,300	6,324	(8,307)	67,624
Operating income	¥6,984	¥431	¥292	¥(479)	¥(2,457)	¥4,771
Total assets	¥59,464	¥6,397	¥3,048	¥5,731	¥9,048	¥83,688

Thousands of U.S. Dollars

	2009					
	Japan	Asia	North America	Europe	Eliminations/Corporate	Consolidated
Sales to customers	\$622,579	\$36,696	\$19,858	\$59,596	\$	\$738,729
Interarea transfer	57,050	35,935	16,801	55	(109,841)	
Total sales	679,629	72,631	36,659	59,651	(109,841)	738,729
Operating expenses	608,363	68,230	33,675	64,540	(84,767)	690,041
Operating income	\$71,266	\$4,401	\$2,984	\$(4,889)	\$(25,074)	\$48,688
Total assets	\$606,769	\$65,279	\$31,104	\$58,481	\$92,323	\$853,956

Millions of Yen

	2008					
	Japan	Asia	North America	Europe	Eliminations/Corporate	Consolidated
Sales to customers	¥59,490	¥3,929	¥2,002	¥7,111	¥	¥72,532
Interarea transfer	5,564	3,683	1,189	31	(10,467)	
Total sales	65,054	7,612	3,191	7,142	(10,467)	72,532
Operating expenses	56,186	7,313	2,689	7,046	(7,610)	65,624
Operating income	¥8,869	¥299	¥502	¥95	¥(2,857)	¥6,908
Total assets	¥60,534	¥7,924	¥3,503	¥6,887	¥12,309	¥91,157

As discussed in Note 2(2), the Company applied PITF No 18 “Practical Solution on Unification of Accounting Policies Applied to Foreign Subsidiaries for the Consolidated Financial Statements” issued by ASBJ in May, 2006. The effect of this change was to decrease the operating income of Asia by ¥6 million (\$67 thousand), and of North America by ¥87 million (\$884 thousand) for the year ended March 31, 2009.

As discussed in Note 2(5), the Company applied ASBJ Statement No 9 “Accounting Standard for Measurement of Inventories” issued by ASBJ in July, 2006. The effect of this change was to decrease the operating income of Japan by ¥70 million (\$712 thousand) for the year ended March 31, 2009.

As discussed in Note 3., effective April 1, 2007, the Company changed its method of inventory costing for the Fluid Technology Unit from the process costing method to the job costing method. The effect of this change was to decrease the operating expenses, and increase operating income of Japan by ¥456 million, respectively, for the year ended March 31, 2008.

(3) Sales to Foreign Customers

Sales to foreign customers for the years ended March 31, 2009 and 2008 amounted to ¥28,410 million (\$289,902 thousand) and ¥27,830 million, respectively.