Annual Report 2010

TOKYO KEIKI INC.

Description of Business

The TOKYO KEIKI Group is engaged in the manufacture and sale of marine instruments, hydraulic equipment, aerospace and defense equipment, instruments and systems for industrial use.

Financial Highlights

Years ended March 31, 2010 and 2009

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2010	2009	2010
Net sales	¥39,243	¥45,546	$421,968
Operating income	1,023	1,524	11,000
Income before income taxes and minority interests	970	1,259	10,430
Net income	573	404	6,161
Total assets	47,778	49,672	513,742
Equity	20,167	19,737	216,849

	Yen		U.S. dollars
Per share of common stock:	2010	2009	2010
Net income (Note 2)	¥6.73	¥4.89	$0.07
Cash dividends	3.00	5.00	0.03

Notes: 1. Yen amounts are translated, for convenience only, at the rate of ¥93=U.S. $1.
2. The computations of net income per share of common stock are based on the weighted average number of shares outstanding during each year.

Sales by Operating Segment

Year ended March 31, 2010

	Millions of yen	% to total	% change (2010/2009)
Marine Systems	¥10,356	26.4%	(18.0)%
Hydraulic and Pneumatic	8,315	21.2	(30.1)
Fluid Measurement	2,159	5.5	(8.8)
Defense and Communications	14,432	36.8	(1.4)
Others	3,980	10.1	(10.1)
Total	¥39,243	100.0%	(13.8)%

To Our Shareholders

ANNUAL REPORT 2010

The Japanese economy in the consolidated fiscal year was buoyed by domestic and foreign economic pump priming measures which stimulated an increase in exports to China and other Asian countries beginning last year September. However the prospects for achieving a self-sustaining economic recovery dimmed as spending in plant and equipment by domestic companies dependent on overseas demand was inhibited by the high value of the yen and deflationary pressures.

Amid this backdrop, the core policies embraced by the Tokyo Keiki Group advocated improving the efficiencies of existing businesses and striving for greater added value in order to further enhance earnings, establishment of a solid earnings base and restructuring of operations for growth, and the nurturing of the Group's human resources and strengthening of organizational capabilities. Specific efforts made in line with these policies included comprehensive streamlining of operations with aim to reduce variable and fixed costs, investments in research and development that strengthen the competitive edge of our existing businesses, establishment of strategic capital alliances that promote globalization, set up of a 'Growth Strategies Committee' tasked with improving corporate value, activities which helped us to formulate business strategies and develop our manpower in the process.

Overall orders for the Group in the consolidated fiscal year declined 18.5% compared to the previous period to ¥34,234 million as orders decreased for marine equipment, hydraulic & pneumatic equipment, and fluid measurement equipment, although orders for defense & communications equipment increased. Sales rose similarly for defense & communications equipment but declines in sales of marine equipment, hydraulic & pneumatic equipment, and fluid measurement equipment resulted an in overall drop of 13.8% in group sales to ¥39,243 million.

Regarding profit and loss, although decreasing sales resulted in a ¥342 million year-on-year decline in operating income to ¥1,023 million, net income for the current period increased ¥157 million to ¥573 million due to decreases in extraordinary losses and corporate taxes.

Marine Systems Business

In the commercial vessel market, despite a pickup in demand for dry bulk cargo shipments for iron ore, etc., the continued slowdown in worldwide maritime freight traffic, depressed business at shipping companies and a steep drop in demand for new ship construction as well as for retrofit work on existing vessels precipitated a large decline in orders and sales compared to the previous year.

In the coastal vessel market, stagnant long term market conditions led to a falloff in orders although sales increased over the preceding term, aided by sales of radar equipment and electronic chart information systems.

In the overseas market, while OEM business for gyrocompasses remained strong, there were increased order cancellations on new ship construction as well as requests by shipping companies for extensions on ship deliveries on Korean and Chinese shipyards, and with depressed demand in Europe and the USA, both orders and sales suffered large decreases.

Regarding sales of marine equipment components and parts, an increase in scrapped and idle ships resulted in declines in parts sales as well as sales related to periodic maintenance, and both orders and sales fell below the prior year as a result.

Product launches in the commercial vessel market during the year included the AGI-50/80 additional interface and retrofit unit for gyrocompasses and TRF-250/500 INMARSAT FleetBroadband mobile earth stations for high speed IP communications.

Overall marine systems business sales were ¥10,356 million, a decrease of ¥2,278 million (18.0%), and operating income was ¥673 million, a decrease of ¥513 million (43.3%) compared to the prior year.

Hydraulics and Pneumatics Business

Although there was gradual recovery in the plastics processing machinery, machine tool and industrial machinery, and construction equipment markets beginning last November, demand remained depressed due to domestic market constraints on capital spending resulting in a steep decline in orders and sales from the previous period.

In the overseas market, a rebound in business activity in Korea, Taiwan, China and other Asian markets since

October of last year prompted an increase in demand which resulted in a large jump in orders over the prior year although sales decreased.

In the hydraulic systems segment, sluggish business conditions in non-marine related markets persisted as the negative impact of curbs on capital expenditures led to a decline in orders although sales registered gains, aided by robust business for hatch cover systems for bulk carrier ships ordered in the previous year.

Sales releases during the year included a new controller and monitor for excavators.

Overall hydraulics and pneumatics business sales were ¥8,315 million, a year-on-year decrease of ¥3,576 million (30.1%). There was an operating loss of ¥553 million (compared with operating income of ¥369 million last year).

Fluid Measurement Equipment Business

In the public sector market, business remained mired in the doldrums as anticipated public investments relating to the water market and introduction of sophisticated treatment plants aimed at improving water quality and facilities expansion designed to cope with earthquake disasters failed to materialize as expected, and with order postponements for water management systems in the agricultural water market, both orders and sales experienced declines compared to a year earlier.

In the private sector market, replacement business for aging laser docking systems for berthing ships continued at a brisk pace and there was increased demand for flowmeters from power companies related to strengthened controls on water intake from rivers which resulted in increases in both orders and sales.

Overall fluid measurement equipment business sales were ¥2,159 million, a year-on-year decrease of ¥208 million (8.8%). Operating income declined ¥59 million (18.1%) to ¥269 million.

Defense and Communications Equipment Business

In the defense market, participation in the electronic defense equipment refurbishment program related to the APR-4A radar warning receiver system for the F-15 mainstay fighter and increased demand for HLR-108C countermeasure sets for the SH-60K antisubmarine patrol helicopter and components for FPS-4 search radar systems helped boost orders over last year. However sales registered a decline as they were adversely impacted by a reduction in repair work on ESM (electronic support measures) systems for the F-2 support fighter and completion in the prior year, of parts deliveries for the MLRS multiple launch rocket system.

In the maritime transport equipment market, increased demand for radars and VTS, vessel traffic services-related equipment from the Japan Coast Guard enabled us to post substantial increases in both orders and sales.

In the communications equipment market, although lackluster conditions prevailed relative to next generation domestic and overseas telecommunications infrastructure improvements, orders were boosted by satellite communication antenna stabilizer systems for the Japan Coast Guard, resulting in a gain over the last period although the forementioned stagnant situation assailing infrastructure improvements exacerbated a decline in sales.

During the year we sales released a portable type airborne AIS (automatic identification system) transponder and developed and market launched a high output oscillator for microwave heating systems.

Overall defense and communications equipment business sales were ¥14,432 million which represented a year-on-year increase of ¥206 million (1.4%). Operating income rose to ¥518 million (compared to a loss of ¥639 million in the previous year).

Other Businesses

In our printing inspection equipment and systems segment, business in the overall industrial segments related to the printing and materials markets was hampered by restraints on plant and equipment investment resulting in a decline in both orders and sales.

Capital spending curbs reflecting the weak economy also negatively affected the business of fire control equipment and led to a decrease in orders although orders received in the prior year and efforts to expand sales related to parts and repair work helped push sales over last year’s level.

In the road and tunnel equipment segment, there were large gains in both orders and sales compared to fiscal 2009 due to rising demand for road-related measurement equipment, favorable business for tunnel guidance systems for overseas projects, as well as increased demand from local governments for inertial sensor (accelerometer) retrofits on seismometer installations.

In the railway equipment segment, although sales related to contractual track maintenance & inspection services focusing on large scale periodic repair and renovation work on rail inspection vehicles and sales of inspection equipment were brisk, the lack of big ticket rail inspection vehicle business resulted in order and sales declines compared to the prior year.

In our information systems development and information processing services businesses, demand was severely affected by the poor economy which resulted in a drastic decline in orders and sales.

Overall results of these business segments were sales of ¥3,980 million which represented a year-on-year decrease of¥448 million (10.1%). Operating income was¥116 million, a decrease of¥162 million (58.2%).

Status of Cash Flow

Cash and cash equivalents ("funds") on a consolidated basis for the fiscal year were ¥11,876 million which was an increase of ¥1,044 million (9.6%) compared to the previous fiscal period. Cash flow from the various sources and factors involved are as follows.

Cash Flow from Operating Activities

Funds from sales activities were ¥3,797 million, an increase of ¥1,146 million (43.2%) over the previous year. This increase was mainly due to income before income taxes of ¥970 million, depreciation of ¥1,098 million, decrease in accounts receivable of ¥1,093 million, and decrease in inventories of ¥853 million.

Cash Flow from Investing Activities

Funds used in investment activities were ¥527 million, a decrease of ¥289 million (35.4%) compared to the previous year. This primarily reflected expenditures of ¥168 million for the purchase of investment securities and ¥438 million for the acquisition of fixed assets.

Cash Flow from Financing Activities

Funds used in financing activities were ¥2,227 million (compared to ¥4,120 million in funds acquired in the previous year). This was chiefly due to a net decrease in short-term loans of ¥1,600 million, proceeds from long-term loans of ¥1,000 million, repayments of long-terms loans of ¥1,363 million, and payments of cash dividends of ¥256 million.

The Tasks of the Company

Anticipation of a pickup in business conditions amid a rebound in overseas economies and growth in exports to China and other Asian countries has been tempered by downward risks associated with the worsening employment situation in advanced countries, currency fluctuations, financial turmoil, and deflationary slide in the domestic economy which have cast a cloud of uncertainty over the outlook of the Japanese economy.

Cognizant of this situation and the atmosphere of pessimism surrounding an early turnaround in demand, the Tokyo Keiki Group will act to improve operational efficiencies to reduce variable and fixed expenses and lower our breakeven point as well as further solidify our corporate foundation by maximizing earnings. We will work to establish self-generating cyclical growth in our businesses through the continuous creation and honing of our competitive edge and transform our corporate structure and culture so that it is better adaptable to changes in the external environment.

Key initiatives in achieving these goals include the strengthening of our profit-earning capacity through ongoing and comprehensive cost down efforts and a further reining in of expenses based on a review of operations. In order to create sustainable competitive advantage, we will accelerate endogenous cyclical growth in our marine systems, hydraulics & pneumatics, fluid measurement equipment, and defense & communications equipment businesses by implementing action plans that incorporate the basic strategies laid out by our Growth Strategies Committee. With regard to transforming our corporate structure and culture to better cope with environmental changes, we have established a business capital alliance with a major flowmeter manufacturer which will enable us to aggressively pursue overseas water markets centering on Asia. We will also focus on upgrading our sales, manufacturing, and service center capabilities in strengthening our global presence and competitiveness. We will also consider business acquisitions, business and operational tie-ups, and M&A as means to develop and expand business in peripheral areas.

In addition, we will endeavor to heighten the confidence of our stakeholders by bolstering corporate governance and enhance the company's internal control system which will also help ensure a greater level of trustworthiness in our financial reporting.

As a strict policy, we also absolutely reject any involvement with asocial forces that may endanger the safety, order and well-being of society.

The basic policies which govern the company are described below.

The management philosophy that guides the Tokyo Keiki Group espouses a dedication to serving society by providing products based on cutting edge technologies which integrate measurement, recognition, and control functions. The code of conduct instilled in our employees embraces the protection of our environment and observance of laws in addition to the satisfaction of our customers and encompasses the following 7 key guidelines: (1) striving with imagination and creativity in developing the best products and technology; (2) striving in creation of new products and businesses which anticipate the needs of the market; (3) earning the trust of our customers by providing safe and secure products and services; (4) honing individual skills with emphasis on self-improvement in striving to become leaders in our respective fields; (5) observing all applicable laws and regulations and as members of society, conducting ourselves in manner consistent with common sense and in accordance with the highest standards of integrity; (6) protecting our beautiful natural environment and taking good care of our precious resources; and (7) sharing responsibility for corporate policy and individually focusing on achieving goals with enthusiasm and a sense of mission. We are aware that high employee morale and the ability of employees to get things done are the most important factors for success in implementing required measures in striving for and achieving greater corporate value. We recognize that improving corporate value will demand that management and employees share the Group's objectives and together insure that our management philosophy and code of conduct are tangibly reflected in our business, and as consequence, in the sustenance and enhancement of the profits of our shareholders.

Research and Development Activities

The basic posture of the Group's research and development effort is the development of original products based on original technology. The company's R&D Center is tasked with basic research work and applications research which spans a comparatively long range view in addition to product development while individual divisions and affiliated subsidiaries carry out shorter term product development. The core technologies of the company include microwave, gyroscope, ultrasound, measurement, control, hydraulics, and signal and image processing.

Overall Group R&D expenditures totaled ¥2,381 million. The principal segments, objectives, and key accomplishments of our research and development efforts and associated R&D expenses are outlined as follows.

Marine Systems

The major focus of R&D efforts in this segment involved next generation navigational equipment and marine communications equipment designed to cope with innovations in information technology and activities related to revised International Maritime Organization (IMO) international standards. Specifically, research and development was carried out on gyrocompasses, autopilots, radars, electronic chart display information systems, and satellite communications equipment. Accomplishments include market release of the AGI-50/80 additional interface and retrofit unit for gyrocompasses and TRF-250/500 IMARSAT FleetBroadband mobile earth station for high speed IP communications.

R&D expenditures related to these activities were ¥654 million.

Hydraulic and Pneumatic Equipment

R&D efforts in this segment were concentrated on hydraulic and pneumatic equipment and systems and related electronic controls. Specific product activities involved various types of pumps and control valves, hydraulic power units, hydraulic control systems, and electronic control equipment. Development focused on new products which reflect the key concepts of energy-saving, "eco", and security in response to overseas demand, particularly from China. Achievements in the year included sales launch of direct drive pump control system products and a new controller and monitor for excavators. A new key entry control device employing RFID technology was also sales released.

R&D expenditures for these activities were ¥422 million.

Fluid Measurement Equipment

Research and development efforts were directed at fluid control measurement equipment and systems for next generation ultrasonic flowmeters and microwave level gauges. Although there were no new product releases during the year, ongoing research was carried out on improving flowmeter accuracies and on higher frequency microwave level gauges.

Related R&D expenditures for these activities were ¥209 million.

Defense and Communications Equipment

Research and development efforts focused on modernizing defense equipment including electronic warfare equipment and equipment for naval vessels. Specific research and development was undertaken to upgrade radar warning receivers and enhance the performance of high frequency parts. Telecommunications-related research and development focused on amplifier modules for wireless communication base stations, various types of RF components and RF modules, and antenna positioning control systems for mobile satellite communications. Achievements include market release of portable AIS transponders for aircraft; high output amplifiers for plasma discharge lamps; frequency converters for ground stations; and compact, light weight television antenna directioning systems.

R&D expenditures were ¥663 million.

Other Equipment

Other business segments of the Group include printing inspection equipment and systems, fire extinguishing systems, road and tunnel equipment, and railway track maintenance equipment.

Development efforts related to printing inspection equipment and systems emphasized expanded printing pattern inspection functions.

People and environment-safe extinguishing systems are the focus of research and development of our fire extinguishing systems business segment.

R&D efforts in our road and tunnel equipment segment, the focus of our TOKYO KEIKI CONSTRUCTION SYSTEMS subsidiary, is centered on automation of construction machinery.

Railway track maintenance equipment is the primary business of our TOKYO KEIKI RAIL TECHNO subsidiary and research and development is devoted to achieving manpower-savings and high-precision in railway track maintenance measurement equipment and systems.

The MESAG multi-output, micro-inertial sensor - a development of our R&D Center - has been incorporated in a “motion logger” system for railways and sales released this year.

R&D expenses for these activities were ¥433 million.

I would like to express my sincere appreciation to our shareholders, customers and business partners for your continued understanding, guidance, and support.

Kenichi Waki
President

Consolidated Balance Sheets

TOKYO KEIKI INC. and Subsidiaries

March 31, 2010 and 2009

ASSETS	Millions of yen		Thousands of U.S. dollars (Note 1)
	2010	2009	2010
Current assets:			
Cash and cash equivalents (Note 13)	¥11,876	¥10,832	$127,699
Time deposits other than cash equivalents	5	5	54
Receivables–			
Trade notes (Note 13)	3,301	3,880	35,495
Trade accounts (Notes 10 and 13)	9,451	9,967	101,624
Associated companies	315	312	3,387
Other (Note 13)	131	469	1,409
Allowance for doubtful accounts	(40)	(58)	(430)
Inventories (Note 4)	10,374	11,227	111,548
Deferred tax assets (Note 9)	540	643	5,806
Prepaid expenses and other current assets	318	324	3,420
Total current assets	36,270	37,596	390,000
Property, plant and equipment:			
Land	1,926	1,926	20,710
Buildings and structures	12,860	12,857	138,280
Machinery and equipment	14,440	14,406	155,269
Furniture and fixtures	10,218	10,333	109,871
Construction in progress	30	97	323
Total	39,473	39,620	424,441
Accumulated depreciation	(33,343)	(32,630)	(358,527)
Net property, plant and equipment	6,130	6,990	65,914
Investments and other assets:			
Investment securities (Notes 3 and 13)	1,797	1,306	19,323
Investments in and advances to associated companies	352	348	3,785
Software	6	13	65
Goodwill (Note 5)	53	102	570
Deposits (Note 13)	1,029	1,031	11,065
Deferred tax assets (Note 9)	2,005	2,120	21,559
Other assets (Note 13)	198	385	2,129
Allowance for doubtful accounts	(61)	(219)	(656)
Total investments and other assets	5,378	5,085	57,828
Total	¥47,778	¥49,672	$513,742

LIABILITIES AND EQUITY	Millions of yen		Thousands of U.S. dollars (Note 1)
	2010	2009	2010
Current liabilities:			
Short-term bank loans (Notes 6 and 13)	¥9,274	¥10,874	$99,720
Current portion of long-term debt (Notes 6 and 13)	1,096	1,363	11,785
Payables–			
Trade notes (Note 13)	786	994	8,452
Trade accounts (Notes 10 and 13)	4,371	4,430	47,000
Associated companies	49		527
Other (Note 13)	258	340	2,774
Income taxes payable (Note 13)	131	166	1,409
Accrued bonuses	692	874	7,441
Accrued expenses	966	1,150	10,387
Other current liabilities	372	385	4,000
Total current liabilities	17,995	20,576	193,495
Long-term liabilities:			
Long-term debt less current portion (Notes 6 and 13)	4,002	4,079	43,032
Liability for retirement benefits (Note 7)	5,378	5,265	57,828
Deposits received	15	13	161
Deferred tax liabilities (Note 9)	1	1	11
Other liabilities	2	2	21
Total long-term liabilities	9,398	9,359	101,054
Commitments and contingent liabilities (Notes 12, 14 and 15)			
Equity (Notes 8 and 17):			
Common stock,			
Authorized, 250,000,000 shares			
Issued, 85,382,196 shares in 2010 and 2009	7,218	7,218	77,613
Capital surplus	14	14	151
Retained earnings	12,685	12,368	136,398
Unrealized gains on available-for-sale securities	380	93	4,086
Foreign currency translation adjustments	(102)	(122)	(1,097)
Treasury stock –at cost			
147,099 shares in 2010 and 142,337 shares in 2009	(27)	(26)	(290)
Total	20,167	19,543	216,849
Minority interests	218	194	2,344
Total equity	20,385	19,737	219,193
Total	¥47,778	¥49,672	$513,742

See notes to consolidated financial statements.

Consolidated Statements of Income

TOKYO KEIKI INC. and Subsidiaries

Years ended March 31, 2010 and 2009

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2010	2009	2010
Net sales (Note 10)	¥39,243	¥45,546	$421,968
Cost of sales (Note 11)	29,393	34,427	316,054
Gross profit	9,849	11,119	105,903
Selling, general and administrative expenses (Note 11)	8,827	9,596	94,914
Operating income	1,023	1,524	11,000
Other income (expenses):			
Interest and dividend income	55	91	591
Equity in earnings of associated companies	37	(59)	398
Losses on sales and devaluation of investment securities	(109)	(148)	(1,172)
Fobeign exchange Losses	(20)		(215)
Interest expense	(168)	(178)	(1,806)
Losses on sales and disposals of property, plant and equipment	(14)	(27)	(151)
Other-net	166	69	1,785
Other expenses–net	(53)	(252)	(570)
Income before income taxes and minority interests	970	1,272	10,430
Income taxes (Note 9):			
Current	281	558	3,022
Deferred	88	252	946
Total	369	810	3,968
Minority interests in net income of consolidated subsidiaries	28	45	301
Net income	¥573	¥417	$6,161

Per share of common stock (Notes 2 and 16):	Yen		U.S. dollars
	2010	2009	2010
Net income	¥6.73	¥4.89	$0,07
Cash dividends	3.00	5.00	0.03

See notes to consolidated financial statements.

Consolidated Statements of Changes in Equity

TOKYO KEIKI INC. and Subsidiaries

Years ended March 31, 2010 and 2009

		Millions of yen								
	Outstanding Number of Common Stock	Common Stock	Capital Surplus	Retained Earnings	Unrealized Gains on Available-for-sale Securities	Foreign Currency Translation Adjustments	Treasury Stock	Total	Minority Interests	Total Equity
Balance at April 1, 2008	85,257,217	¥7,218	¥14	¥12,377	¥665	¥39	¥(23)	¥20,289	¥151	¥20,440
Net income				417				417		417
Repurchases of treasury stock	17,358						(3)	(3)		(3)
Cash dividends, ¥5 per share				(426)				(426)		(426)
Net change in the year					(572)	(161)		(733)	42	(691)
Balance at March 31, 2009	85,239,859	7,218	14	12,368	93	(122)	(26)	19,543	194	19,737
Net income				573				573		573
Repurchases of treasury stock	4,762						(1)	(1)		(1)
Cash dividends, ¥3 per share				(256)				(256)		(256)
Net change in the year					286	21		307	24	332
Balance at March 31, 2010	85,235,097	¥7,218	¥14	¥12,685	¥380	¥(102)	¥(27)	¥20,167	¥218	¥20,385

	Thousands of U.S. dollars (Note1)								
	Common Stock	Capital Surplus	Retained Earnings	Unrealized Gains on Available-for-sale Securities	Foreign Currency Translation Adjustments	Treasury Stock	Total	Minority Interests	Total Equity
Balance at March 31, 2009	$77,613	$151	$132,989	$1,000	$(1,312)	$(280)	$210,151	$2,086	$212,226
Net income			6,161				6,161		6,161
Repurchases of treasury stock						(11)	(11)		(11)
Cash dividends, ¥3 per share			(2,753)				(2,753)		(2,753)
Net change in the year				3,075	226		3,301	258	3,570
Balance at March 31, 2010	$77,613	$151	$136,398	$4,086	$(1,097)	$(290)	$216,849	$2,344	$219,193

See notes to consolidated financial statements.

Consolidated Statements of Cash Flows

TOKYO KEIKI INC. and Subsidiaries

Years ended March 31, 2010 and 2009

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2010	2009	2010
Operating activities:			
Income before income taxes and minority interests	¥970	¥1,272	$10,430
Adjustments for:			
Income taxes - paid	(158)	(1,121)	(1,699)
Depreciation	1,098	1,149	11,806
Decrease in accrued bonuses	(182)	(257)	(1.957)
(Decrease) increase in allowance for doubtful accounts	(176)	166	(1,892)
Increase (decrease) in liability for retirement benefits	113	(158)	1,215
Losses on sales and devaluation of investment securities	109	148	1,172
Losses on sales and disposals of property, plant and equipment	14	27	151
Changes in assets and liabilities:			
Decrease in receivables	1,093	3,740	11,753
Decrease in inventories	853	52	9,172
Decrease in payables	(259)	(1,942)	(2,785)
Decrease (Increase) in other assets	305	(37)	3,280
Decrease in other liabilities	(19)	(515)	(204)
Other-net	35	126	376
Total adjustments	2,826	1,379	30,388
Net cash provided by operating activities	3,796	2,651	40,818
Investing activities:			
Purchases of investment securities	(168)	(9)	(1,806)
Proceeds from sales of investment securities	35		376
Purchases of property, plant and equipment	(438)	(774)	(4,710)
Proceeds from sales of property, plant and equipment	0	6	0
Payments for purchases of consolidated subsidiaries net of cash acquired		(85)	
Other-net	44	47	473
Net cash used in investing activities	(527)	(815)	(5,667)
Financing activities:			
(Decrease) increase in short-term bank loans-net	(1,600)	5,181	(17,204)
Proceeds from long-term debt	1,000	3,350	10,753
Repayments of long-term debt	(1,363)	(3,979)	(14,656)
Other-net	(264)	(433)	(2,839)
Net cash (used in) provided by financing activities	(2,228)	4,120	(23,957)
Foreign currency translation adjustments on cash and cash equivalents	1	(12)	11
Net increase in cash and cash equivalents	1,044	5,943	11,226
Cash and cash equivalents, beginning of year	10,832	4,889	116,473
Cash and cash equivalents, end of year	¥11,876	¥10,832	$127,699

See notes to consolidated financial statements.

Notes to Consolidated Financial Statements

TOKYO KEIKI INC. and Subsidiaries

Years ended March 31, 2010 and 2009

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 and its related accounting regulations and in conformity with accounting principles generally accepted in Japan, which are different in certain respects as to the 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 2009 financial statements to conform to classifications used in 2010.

The consolidated financial statements are stated in Japanese yen, the currency of the country in which TOKYO KEIKI INC. (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 ¥93 to $1, the approximate rate of exchange at March 31, 2010. 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.

Figures less than one million yen or one thousand U.S. dollars are rounded up or down to the nearest million yen or thousand U.S. dollars. The figures are not adjusted to agree in total.

2. Summary of Significant Accounting Policies

Consolidation

The consolidated financial statements as of March 31, 2010 include the accounts of the Company and its 9 (10 in 2009) 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 fully accounted for by the equity method.

Investments in two (three in 2009) associated companies are accounted for by the equity method.

The excess of the cost of the Group's investments in consolidated subsidiaries and associated companies accounted for by the equity method over its equity in the fair value of the net assets at the respective dates of acquisition is amortized on a straight-line basis over five years, except for immaterial excess which is charged to income.

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.

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 and certificate of deposits, all of which mature or become due within three months from the date of acquisition.

Allowance for Doubtful Accounts

The allowance for doubtful accounts is stated in amounts considered to be appropriate based on the Group's past credit loss experience and an evaluation of potential losses in the assets outstanding.

Marketable and Investment Securities

Marketable and investment securities are classified as available-for-sale securities.

Marketable available-for-sale 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 average method. For other than temporary declines in fair value, non-marketable available-for-sale securities are reduced to net realizable value by a charge to income.

Inventories

Inventories are stated at the lower of cost, determined by the job identification cost method for finished products and work in process, and by the first-in, first-out method for raw materials, or net selling value.

Property, Plant and Equipment

Property, plant and equipment are stated at cost. Depreciation is computed on the declining-balance method while the straight-line method is applied to buildings acquired after April 1, 1998. The range of useful lives is from 8 to 65 years for buildings and structures, from 4 to 11 years for machinery and equipment, and from 2 to 15 years for furniture and fixtures.

Long-lived assets

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

Goodwill

Goodwill on the purchase of a specific business is amortized on a straight-line basis over five years.

Software

Purchased software costs are deferred and amortized on a straight-line basis over their useful lives (five years).

Accrued Bonuses

An accrual is provided for bonuses to be paid to employees.

Retirement and Pension Plans

The Company has a non-contributory funded pension plan covering substantially all of its employees.

Effective April 1, 2000, the Group adopted a new accounting standard for employees' retirement benefits and accounted for the liability for retirement benefits based on the projected benefit obligations and plan assets at the balance sheet date.

The transitional obligation of ¥ 7,627 million ($ 82,011 thousand), determined as of the April 1, 2000, is being amortized over ten years.

Retirement benefits to directors and corporate auditors are provided at the amount which would be required if all directors and corporate auditors retired at the balance sheet date.

In July 2008, the Accounting Standards Board of Japan (”ASBJ”) issued ASBJ Statement No.19 “Partial Amendments to Accounting Standard for Retirement Benefits (Part 3)”. The statement removes the accounting treatment, which provides that an entity may use the discount rate determined taking into consideration fluctuations in the yield of bonds over a certain period. The revised accounting standard is effective for fiscal years beginning on or after April 1, 2009 with early adoption permitted for fiscal years beginning on or after April 1, 2008. The Company applied the revised accounting standard effective April 1, 2009. This change had no effect on profit or loss.

Construction Contracts

In December 2007, the ASBJ issued ASBJ Statement No. 15, “Accounting Standard for Construction Contracts”, and ASBJ Guidance No. 18, “Guidance on Accounting Standard for Construction Contracts”. Under the previous Japanese GAAP, either the completed-contract method or the percentage-of-completion method was permitted to account for construction contracts. Under this new accounting standard, the 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 should be applied. When it is probable that the total construction costs will exceed total construction revenue, an estimated loss on the contract should be immediately recognized by providing for a 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. The Company applied the new accounting standard effective April 1, 2009. The accounting change has no impact on the results of operations in 2010.

Research and Development Costs

Research and development costs are charged to income as incurred.

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 is 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 accounted for as operating lease transactions.

The Company and domestic subsidiaries applied the revised accounting standard effective April 1, 2008. In addition, the Company and domestic subsidiaries accounted for leases which existed at the transition date and do not transfer ownership of the leased property to the lessee as operating transactions.

All other leases are accounted for as operating leases.

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 the temporary differences.

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

Appropriations of Retained Earnings

Appropriations of retained earnings are reflected in the financial statements for the following year upon shareholders' approval.

Foreign Currency Transactions

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

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 historical rates.

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

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

Derivatives and Hedging Activities

The Group uses interest rate swaps as a means of hedging exposure to 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 be recognized as either assets or liabilities and measured at fair value and gains or losses on derivative transactions are recognized in the income statement and (b) for derivatives used for hedging purposes, if the derivatives qualify for hedge accounting because of high correlation and effectiveness between the hedging instruments and the hedged items, gains or losses on the derivatives are deferred until maturity of the hedged transactions.

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

Per Share Information

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

Fully diluted net income per share at March 31, 2010 and 2009 are not disclosed in the accompanying consolidated financial statements because bonds with warrants or convertible bonds have not been issued.

New Accounting Pronouncements

Business Combinations—In December 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 companies to account for such business combinations by the purchase method and the pooling of interests method of accounting is no longer allowed.

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

(3) The current accounting standard accounts for 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 companies to unify accounting policies within the consolidation group. However, the current guidance allows companies to apply the equity method for the financial statements of its foreign associated companies which have been prepared in accordance with generally accepted accounting principles in their respective jurisdictions without unification of accounting policies.

In December 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 equity; 3) expensing capitalized development costs of R&D; 4) cancellation of fair value model accounting for property, plant, and equipment and investment properties and incorporation of cost model 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 contained.

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 –In March 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.

Accounting Changes and Error Corrections − In December 2009, ASBJ issued ASBJ Statement No. 24, "Accounting Standard for Accounting Changes and Error Corrections", and ASBJ Guidance No. 24, "Guidance on Accounting Standard for Accounting Changes and Error Corrections". Accounting treatments under this standard and guidance are as follows:

(1) Changes in Accounting Policies:

When a new accounting policy is applied with a revision of accounting standards, the new policy is applied retrospectively unless the revised accounting standards include specific transitional provisions. When the revised accounting standards include specific transitional provisions, an entity shall comply with the specific transitional provisions.

(2)Changes in Presentation

When the presentation of financial statements is changed, prior period financial statements are reclassified in accordance with the new presentation.

(3)Changes in Accounting Estimates

A change in an accounting estimate is accounted for in the period of the change if the change affects that period only and is accounted for prospectively if the change affects both the period of the change and future periods.

(4)Corrections of Prior Period Errors

When an error in prior period financial statements is discovered, those statements are restated.

This accounting standard and the guidance are applicable to accounting changes and corrections of prior period errors which are made from the beginning of the fiscal year that begins on or after April 1, 2011.

Segment Information Disclosures − In March 2008, the ASBJ revised ASBJ Statement No. 17, "Accounting Standard for Segment Information Disclosures", and issued ASBJ Guidance No.20, "Guidance on Accounting Standard for Segment Information Disclosures". Under the standard and guidance, an entity is required to report financial and descriptive information about its reportable segments. Reportable segments are operating segments or aggregations of operating segments that meet specified criteria. Operating segments are components of an entity about which separate financial information is available and such information is evaluated regularly by the chief operating decision maker in deciding how to allocate resources and in assessing performance. Generally, segment information is required to be reported on the same basis as is used internally for evaluating operating segment performance and deciding how to allocate resources to operating segments. This accounting standard and the guidance are applicable to segment information disclosures for the fiscal years beginning on or after April 1, 2010.

3. Marketable and Investment Securities

Marketable and investment securities as of March 31, 2010 and 2009 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
Non-current:	2010	2009	2010
Equity securities	¥1,787	¥1,299	$19,215
Trust fund investments	9	7	97
Total	¥1,797	¥1,306	$19,323

The carrying amounts and aggregate fair values of marketable and investment securities at March 31, 2010 and 2009 were as follows:

	Millions of yen			
March 31, 2010	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Securities classified as:				
Available-for-sale:				
Equity securities	¥1,171	¥650	¥61	¥1,759
Trust fund investments	13		4	9
March 31, 2009				
Securities classified as:				
Available-for-sale:				
Equity securities	¥1,098	¥340	¥167	¥1,271
Trust fund investments	13		6	7

	Thousands of U.S. dollars			
March 31, 2010	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Securities classified as:				
Available-for-sale:				
Equity securities	$12,591	$6,989	$656	$18,914
Trust fund investments	140		43	97

Available-for-sale securities whose fair value is not readily determinable as of March 31, 2010 and 2009 were as follows:

	Carrying amount		
	Millions of yen		Thousands of U.S. dollars
	2010	2009	2010
Available-for-sale:			
Equity securities	¥28	¥28	$260

4. Inventories

Inventories at March 31,2010 and 2009 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2010	2009	2010
Finished goods	¥663	¥748	$7,129
Work in process	5,045	5,713	54,247
Raw materials and supplies	4,666	4,766	50,172
Total	¥10,374	¥11,227	$111,548

5. Goodwill

Goodwill at March 31, 2010 and 2009 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2010	2009	2010
Goodwill on purchase of specific business		¥33	
Consolidation goodwill	¥53	69	$570
Total	¥53	¥102	$570

6. Short-term Bank Loans and Long-term Debt

The annual weighted-average interest rate applicable to short-term bank loans was 1.07% and 1.13% at March 31, 2010 and 2009, respectively.

Long-term debt at March 31, 2010 and 2009 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2010	2009	2010
Loans from banks and insurance companies due serially to 2015 with weighted-average interest of 1.56% (2010) and 1.60% (2009)	¥5,079	¥5,442	$54,613
Obligations under finance leases	¥19		204
Total	¥5,098	¥5,442	$54,817
Less current portion	(1,096)	(1,363)	(11,785)
Long-term debt, less current portion	¥4,002	¥4,079	$43,032

Annual maturities of long-term debt at March 31, 2010 were as follows:

Year Ending March 31	Millions of yen	Thousands of U.S. dollars
2011	¥1,091	$11,731
2012	2,762	29,699
2013	571	6,140
2014	420	4,516
2015	235	2,527
Total	¥5,079	$54,613

Annual maturities of long-term lease obligations at March 31, 2010, were as follows:

Year Ending March 31	Millions of yen	Thousands of U.S. dollars
2011	¥5	$54
2012	5	54
2013	5	54
2014	3	32
2015		
Total	¥19	$204

7. Retirement and Pension Plans

The Company and its certain domestic subsidiaries have severance payment plans for employees, directors and corporate auditors.

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. Such retirement benefits are made in the form of a lump-sum severance payment or annuity payment both from a trustee for the Company and are made in the form of severance payments from certain domestic subsidiaries. Employees are entitled to larger payments if the termination is involuntary, by retirement at the mandatory retirement age, by death, or by voluntary retirement at certain specific ages prior to the mandatory retirement age.

The liability for retirement benefits for directors and corporate auditors at March 31, 2010 and 2009 were ¥263 millions ($2,828 thousand) and ¥250 millions, respectively.

The retirement benefits for directors and corporate auditors are paid subject to the approval of the shareholders.

The liability for employees' retirement benefits at March 31, 2010 and 2009 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2010	2009	2010
Projected benefit obligation	¥12,183	¥12,359	$131,000
Fair value of plan assets	(6,219)	(4,677)	(66,871)
Unrecognized actuarial loss	(849)	(1,914)	(9,129)
Unrecognized transitional obligation		(754)	
Net liability	¥5,115	¥5,015	$55,000

The components of net periodic benefit costs for the years ended March 31, 2010 and 2009 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2010	2009	2010
Service cost	¥576	¥575	$6,193
Interest cost	276	277	2,968
Expected return on plan assets		(46)	
Amortization of transitional obligation	754	754	8,108
Recognized actuarial loss	394	237	4,237
Net periodic benefit costs	¥1,999	¥1,797	$21,495

Assumptions used for the years ended March 31, 2010 and 2009 are set forth as follows:

	2010	2009
Discount rate	2.3%	2.3%
Expected rate of return on plan assets	0.0%	1.0%
Recognition period of actuarial gain / loss	10 years	10 years
Amortization period of transitional obligation	10 years	10 years

8. EQUITY

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

(a) Dividends

Under the Corporate 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. For companies that meet certain criteria such as: (1) having a Board of Directors, (2) having independent auditors, (3) having a 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 Corporate Act permits companies to distribute dividends-in-kind (non-cash assets) to shareholders subject to certain limitations 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 Corporate 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 Corporate 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 the aggregate amount of the legal reserve and additional paid-in capital equals 25% of the common stock. Under the Corporate Act, the total amount of additional paid-in capital and the legal reserve may be reversed without limitation. The Corporate 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 Corporate 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 Corporate Act, stock acquisition rights are presented as a separate component of equity.

The Corporate 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.

9. Income Taxes

The Company and its domestic subsidiaries are subject to Japanese national and local income taxes which, in the aggregate, resulted in a normal effective statutory tax rate of approximately 40.5% for the years ended March 31, 2010 and 2009.

The tax effects of significant temporary differences and tax loss carryforwards which resulted in deferred tax assets and liabilities at March 31, 2010 and 2009 are as follows:

Deferred tax assets:	Millions of yen 2010	2009	Thousands of U.S. dollars 2010
Allowance for doubtful accounts	¥29	¥80	$312
Accrued bonuses	280	354	3,011
Pension and severance costs	2,165	2,119	23,280
Other	933	988	10,032
Subtotal	3,407	3,541	36,634
Less valuation allowance	(651)	(689)	(7,000)
Total	2,756	2,852	29,634
Deferred tax liabilities:			
Unrealized gains on available-for-sale securities	(206)	(74)	(2,215)
Other	(7)	(15)	(75)
Total	(213)	(90)	(2,290)
Net deferred tax assets	¥2,544	¥2,762	$27,354

A reconciliation between the normal effective statutory tax rate and the actual effective tax rate reflected in the accompanying consolidated statements of income for the year ended March 31, 2010 and 2009 is as follows:

	2010	2009
Normal effective statutory tax rate	40.5%	40.5%
Valuation allowance	(3.2)	22.4
Expenses not deductible for income tax purposes	1.5	1.6
Per capita levy of local taxes	3.9	3.0
Tax credit for R & D expenses	(2.6)	(4.7)
Equity in losses of associated companies	(1.5)	1.9
Other-net	(0.6)	(1.0)
Actual effective tax rate	38.0%	63.7%

10. Related party disclosures

Transactions of the Company with subsidiaries and associated companies for the years ended March 31, 2010 and 2009 were as follows:

	Millions of yen 2010	2009	Thousands of U.S. dollars 2010
Product sales	¥891	¥617	$9,581
Purchases of raw materials	107	48	1,151

The balances due to or from these subsidiaries and associated companies at March 31, 2010 and 2009 were as follows:

	Millions of yen 2010	2009	Thousands of U.S. dollars 2010
Accounts receivable	¥162	¥194	$1,742
Accounts payable	93	47	1,000

11. Research and Development Costs

Research and development costs charged to income were ¥2,381 million ($25,602 thousand) and ¥2,477 million for the years ended March 31, 2010 and 2009, respectively.

12. Leases

The Group leases certain machinery, computer equipment and other assets. Total rental expense for the years ended March 31, 2010 and 2009 were ¥946 million ($10,172 thousand) and ¥972 million, respectively, including ¥52 million ($559 thousand) and ¥52 million of lease payments under finance leases.

As discussed in Note 2, the Company and its domestic subsidiaries account for leases which existed at the transition date and do not transfer ownership of the leased property to the lessee as operating lease transactions.

Pro forma information of such leases existing at the transition date, such as acquisition cost, accumulated depreciation, obligations under finance leases, depreciation expense, and interest expense on a “as if capitalized” basis for the years ended March 31, 2010 and 2009 were as follows:

	Millions of Yen		Thousands of U.S.dollars
	2010	2009	2010
	Furniture and Fixtures	Furniture and Fixtures	Furniture and Fixtures
Acquisition cost	¥156	¥156	$1,677
Accumulated depreciation	139	90	1,495
Net leased property	¥17	¥67	$182

Obligations under finance leases:

	Millions of Yen		Thousands of U.S.dollars
	2010	2009	2010
Due within one year	¥17	¥51	$183
Due after one year		17	
Total	¥17	¥68	$183

Depreciation expense and interest expense under finance leases:

	Millions of Yen		Thousands of U.S.dollars
	2010	2009	2010
Depreciation expense	¥50	¥50	$538
Interest expense	1	2	11
Total	¥52	¥52	$559

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

The minimum rental commitments under noncancellable operating leases at March 31, 2010 and 2009 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2010	2009	2010
Due within one year	¥504	¥504	$5,419
Due after one year	2,520	3,024	27,097
Total	¥3,024	¥3,528	$32,516

13. Financial Instruments

In March 2008, the ASBJ revised ASBJ Statement No. 10, "Accounting Standard for Financial Instruments", and issued ASBJ Guidance No.19, "Guidance on Accounting Standard for Financial Instruments and Related Disclosures". This accounting standard and the guidance are applicable to financial instruments and related disclosures at the end of the fiscal years ending on or after March 31, 2010 with early adoption permitted from the beginning of the fiscal years ending before March 31, 2010. The Group applied the revised accounting standard and the new guidance effective March 31, 2010.

(1) Policy for financial instruments

The Group uses financial instruments, mainly long-term debt including bank loans and lease obligations, based on its capital financing plan. Cash surpluses, if any, are invested in low risk financial assets. Derivatives are used, not for speculative purposes, but to manage exposure to financial risks and cost reduction as described in note 14.

(2) Nature and extent of risks arising from financial instruments

Receivables such as trade notes and trade accounts are exposed to customer credit risk. Receivables in foreign currencies are exposed to the risk of exchange fluctuations. Marketable and investment securities, mainly held-to-maturity securities and equity instruments of customers and suppliers of the Group are exposed to the risk of market price fluctuations.

Payment terms of payables, such as trade notes and trade accounts, are less than one year. A part of payables in foreign currencies are exposed to the risk of exchange fluctuations.

Maturities of bank loans are less than four years and ten months after the balance sheet date. Although a part of such bank loans are exposed to market risks from changes in variable interest rates, those risks are mitigated by using interest-rate swaps.

Derivatives include interest-rate swaps, which are used to manage exposure to market risks and payables and from changes in the interest rates of bank loans. Please see Note 14 for more detail about derivatives.

(3) Risk management for financial instruments

(a) Management of Credit Risks (risks associated with defaults on contracts by business partners)

Regarding operating receivables, the Company strives to anticipate potential collection problems due to deteriorating customer finances and mitigate the risks thereof through due diligence evaluations of customer creditworthiness and determination of the appropriateness of related transactions - activities which encompass credit investigations and financial analysis in accordance with the Company's credit policy.

In a similar manner, credit risks are managed by our consolidated subsidiaries pursuant to the Company's credit policy.

Credit risks associated with derivative transactions with business partners are deemed negligible as such dealings are restricted to highly rated financial institutions.

(b) Management of Market Risks (currency exchange and interest rate risks)

Although the Company's business includes foreign currency-based trade receivables and payables, foreign currency trade payables are consistently maintained below the level of foreign currency trade receivables in order to reduce currency exchange risks. In addition, as most of the Company's foreign currency-based trade receivables are subject to short term settlement, risks related to exchange rate fluctuations are considered nominal and as such, the Company does not engage in forward exchange contracts. The Company also employs interest rate swaps in order to reduce risks associated with volatility in interest payments on borrowings.

With regard to investment securities, the Company regularly ascertains prevailing market prices as well as the financial situation of the issuers (counterparties) and the Company's holdings are reviewed and evaluated on an ongoing basis with consideration paid to market conditions and relationships with the counterparties.

Regarding execution and management of derivative transactions, managerial approval for such transactions is obtained by the finance department in accordance with applicable in-house rules which establish trading authority and limits on transaction amounts. A report on the results of these activities is presented at the management meeting on a quarterly basis.

In a similar manner, market risks are managed by the Company's subsidiaries pursuant to Company policy.

(c) Management of Liquidity Risks (risks associated with inability to meet payment obligations)

The Company manages liquidity risks through the finance department which is charged with maintaining ready liquidity and formulating and upgrading financial plans on a timely basis.

In a similar manner, liquidity risks are managed by the Company's subsidiaries in accordance with Company policy.

(4) Supplementary information on the fair value of financial instruments

Quoted market prices, when available, are used to estimate fair values of financial instruments. However, quoted market prices are not available for all financial instruments and fair values of such financial instruments are estimated using discounted cash flow models or other valuation techniques. Considerable judgment is required in determining valuation methodologies and the assumptions used in estimating fair values of financial instruments, therefore the effect of using different methodologies and assumptions may be material to the estimated fair value amounts.

Fair value of financial instruments

	Millions of yen		
March 31, 2010	Carrying amount	Fair value	Unrealized gain/loss
Cash and cash equivalents	¥11,876	¥11,876	
Receivables	13,064	13,064	
Other accounts receivable	131	131	
Marketable and investment securities	1,769	1,769	
Long-term loans receivable	163	163	
Guarantee money paid	705	368	¥(337)
Total	¥27,708	¥27,371	¥(337)
Payables	¥5,157	¥5,157	
Short-term bank loans	9,274	9,274	
Other accounts payable	258	258	
Income taxes payable	131	131	
Long-term bank loans	5,079	5,090	¥11
Total	¥19,900	¥19,911	¥11

	Thousands of U.S.Dollars		
March 31, 2010	Carrying amount	Fair value	Unrealized gain/loss
Cash and cash equivalents	$127,699	$127,699	
Receivables	140,473	140,473	
Other accounts receivable	1,409	1,409	
Marketable and investment securities	19,022	19,022	
Long-term loans receivable	1,753	1,753	
Guarantee money paid	7,581	3,975	$(3,624)
Total	$297,937	$294,331	$(3,624)
Payables	$55,452	$55,452	
Short-term bank loans	99,720	99,720	
Other accounts payable	2,774	2,774	
Income taxes payable	1,409	1,409	
Long-term bank loans	54,613	54,731	$118
Total	$213,978	$214,097	$118

(a)Cash and cash equivalents

The carrying values of cash and cash equivalents approximate fair value because of their short maturities.

(b)Receivables and Other accounts receivable

The carrying values of receivables and Other accounts receivable approximate fair value because of their short maturities.

(c)Marketable and investment securities

The fair values of marketable and investment securities are measured at the quoted market price of the stock exchange for equity instruments and at the quoted price obtained from financial institutions for certain debt instruments. Information on fair value for the marketable and investment securities by classification is included in Note 3.

(d)Long-term loans receivables

The fair values of long-term loans receivable are determined based on the total amount of the principal and interest discounted by an assumed interest rate if similar loans were newly made.

(e)Guarantee money paid

The fair values of the guarantee money paid for the headquarters building are measured by discounting the cash flows that are reduced by the estimated uncollectible amount at an interest rate that is based on that of government bonds.

(f)Payables, Short-term bank loans, Other accounts payable and Income taxes payable

The carrying values of payables, short-term bank loans, other accounts payable and income taxes payable approximate fair value because of their short maturities.

(g)Long-term bank loans

The fair values of long-term bank loans are based on the present value of the total of principal and interest discounted by the interest rate to be applied if similar new borrowings were entered into.

Financial instruments whose fair value cannot be reliably determined

March 31, 2010	Carrying amount	
	Millions of Yen	Thousands of U.S. dollars
Investments in equity instruments that do not have a quoted market price in an active market	¥28	$301
Investments in affiliates	202	2,172
Guarantee money paid for business dealings	324	3,484
Total	¥554	$5,957

Maturity analysis for financial assets and securities with contractual maturities

March 31, 2010	Millions of yen			
	Due in one year or less	Due after one year through five years	Due after five years through ten years	Due after ten years
Cash and cash equivalents	¥11,876			
Receivables	13,064			
Long-term loan receivables		¥161	¥1	
Total	¥24,940	¥161	¥1	

March 31, 2010	Thousands of U.S.Dollars			
	Due in one year or less	Due after one year through five years	Due after five years through ten years	Due after ten years
Cash and cash equivalents	$127,699			
Receivables	140,473			
Long-term loan receivables		$1,731	$11	
Total	$268,172	$1,731	$11	

Please see Note 6 for information on the maturity of long-term bank loans.

14. Derivatives

The Group enters into interest rate swap agreements as a means of managing interest rate exposure.

It is the Group's policy to use derivatives only for the purpose of reducing market risks associated with assets and liabilities. The Group does not hold or issue derivatives for trading purposes.

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

The basic policies for the use of derivatives are made in accordance with internal policies which regulate the authorization and credit limit amount.

As noted in Note 13, the Group applied ASBJ Statement No.10, "Accounting Standard for Financial Instruments", and ASBJ Guidance No.19, "Guidance on Accounting Standard for Financial Instruments and Related Disclosures". The accounting standard and the guidance are applicable to financial instruments and related disclosures at the end of the fiscal years ending on or after March 31, 2010; therefore, the required information is disclosed only for 2010.

Derivative transactions to which hedge accounting is applied at March 31, 2010 are as follows:

	Millions of Yen			
	Hedged item	Contract Amount	Contract Amount due after One Year	Fair Value
Interest rate swaps: (fixed rate payment, floating rate receipt)	Long-term debt	¥5,079	¥3,988	(*)

	Thousands of U.S dollars			
	Hedged item	Contract Amount	Contract Amount due after One Year	Fair Value
Interest rate swaps: (fixed rate payment, floating rate receipt)	Long-term debt	$54,613	$42,882	(*)

(*) The interest rate swap contracts which qualify for hedge accounting and meet specific matching criteria are assigned to the associated long-term loans from banks and recorded in the consolidated balance sheets at March 31, 2010 and included in the fair value of long-term loans from banks.

15. Commitments and Contingent Liabilities

As of March 31, 2010, the Company has entered into interest rate swaps in the ordinary course of business (Note 14).

16. NET INCOME PER SHARE

Basic net income per share ("EPS") for the years ended March 31, 2010 and 2009 is as follows:

	Millions of Yen	Thousands of shares	Yen	Dollars
	Net income	Weighted average shares	EPS	
For the year ended March 31, 2010:				
Basic EPS				
Net income available to common shareholders	¥573	85,237	¥6.73	$0.07
For the year ended March 31, 2009:				
Basic EPS				
Net income available to common shareholders	¥417	85,247	¥4.89	

17. Subsequent Event

The shareholders' meeting of the Company held on June 29, 2010 approved the following appropriations of retained earnings:

	Millions of yen	Thousands of U.S. dollars
Cash dividends, ¥3 ($0.03) per share	¥256	$2,753

18. Segment Information

Information with respect to operations in different business segments, geographical segments and sales to foreign customers of the Group for the years ended March 31, 2010 and 2009, is as follows:

(1) Operations in Different Business Segments

a. Sales and Operating Income (loss)

	Millions of yen						
	2010						
	Marine Systems	Hydraulic and Pneumatic	Fluid Measurement	Defense and Communications	Others	Eliminations/ Corporate	Consolidated
Sales to customers	¥10,356	¥8,315	¥2,159	¥14,432	¥3,980		¥39,243
Intersegment sales	123	57		156	1,235	¥1,571	
Total sales	10,479	8,372	2,159	14,588	5,215	(1,571)	39,243
Operating expenses	9,806	8,926	1,891	14,071	5,098	(1,571)	38,220
Operating income (loss)	¥673	¥(553)	¥269	¥518	¥116		¥1,023

b. Assets, Depreciation and Capital Expenditures

	Millions of yen						
	2010						
	Marine Systems	Hydraulic and Pneumatic	Fluid Measurement	Defense and Communications	Others	Eliminations/ Corporate	Consolidated
Assets	¥5,552	¥8,609	¥1,550	¥14,623	¥7,641	¥9,803	¥47,778
Depreciation	99	339	12	580	118		1,147
Capital expenditures	31	63	11	93	64		262

a. Sales and Operating Income (loss)

	Millions of yen						
	2009						
	Marine Systems	Hydraulic and Pneumatic	Fluid Measurement	Defense and Communications	Others	Eliminations/ Corporate	Consolidated
Sales to customers	¥12,634	¥11,890	¥2,367	¥14,227	¥4,428		¥45,546
Intersegment sales	98	92	1	50	1,852	¥2,093	
Total sales	12,732	11,983	2,368	14,276	6,279	(2,093)	45,546
Operating expenses	11,546	11,613	2,040	14,915	6,001	(2,093)	44,023
Operating income (loss)	¥1,187	¥369	¥328	¥(639)	¥278		¥1,524

b. Assets, Depreciation and Capital Expenditures

	Millions of yen						
	2009						
	Marine Systems	Hydraulic and Pneumatic	Fluid Measurement	Defense and Communications	Others	Eliminations/ Corporate	Consolidated
Assets	¥6,107	¥9,611	¥1,757	¥15,682	¥7,673	¥8,841	¥49,672
Depreciation	102	320	15	621	136		1,194
Capital expenditures	148	248	9	267	127		798

a. Sales and Operating Income (loss)

	Thousands of U.S. dollars						
	2010						
	Marine Systems	Hydraulic and Pneumatic	Fluid Measurement	Defense and Communications	Others	Eliminations/ Corporate	Consolidated
Sales to customers	$111,355	$89,409	$23,215	$155,183	$42,796		$421,968
Intersegment sales	1,323	613	0	1,677	13,280	$16,892	
Total sales	112,677	90,022	23,215	156,860	56,075	(16,892)	421,968
Operating expenses	105,441	95,978	20,333	151,301	54,817	(16,892)	410,968
Operating income (loss)	$7,237	$(5,946)	$2,892	$5,570	$1,247		$11,000

b. Assets, Depreciation and Capital Expenditures

	Thousands of U.S. dollars						
	2010						
	Marine Systems	Hydraulic and Pneumatic	Fluid Measurement	Defense and Communications	Others	Eliminations/ Corporate	Consolidated
Assets	$59,699	$92,570	$16,667	$157,237	$82,161	$105,409	$513,742
Depreciation	1,065	3,645	129	6,237	1,269		12,333
Capital expenditures	333	677	118	1,000	688		2,817

(2) Geographical Segments

Since domestic sales and total assets held domestically of the Group for the years ended March 31, 2010 and 2009 are more than 90% of consolidated sales and assets, segment information by geographic area is not presented.

(3) Sales to Foreign Customers

Sales to foreign customers for the years ended March 31, 2010 and 2009 amounted to ¥6,520 million ($70,108 thousand) and ¥7,847 million, respectively.

Deloitte.

Deloitte Touche Tohmatsu LLC
MS Shibaura Building
4-13-23, Shibaura
Minato-ku, Tokyo 108-8530
Japan

Tel:+81 (3) 3457 7321
Fax:+81 (3) 3457 1694
www.deloitte.com/jp

INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
TOKYO KEIKI INC.:

We have audited the accompanying consolidated balance sheets of TOKYO KEIKI INC. (the "Company") and subsidiaries as of March 31, 2010 and 2009, and the related consolidated statements of income, changes in equity, and cash flows for the years then ended, all expressed in Japanese yen. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of TOKYO KEIKI INC. and subsidiaries as of March 31, 2010 and 2009, and the consolidated results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in Japan.

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

Deloitte Touche Tohmatsu LLC

June 29, 2010

Directors and Auditors of the Company

President
Kenichi WAKI

Senior Executive Directors
Yoshisuke AKITA

Executive Directors
Noriyuki AKABA

Directors
Hidemitsu YAMADA
Hiroshi EBINUMA
Motoshi MITOBE
Setsuro KIMURA
Tsuyoshi ANDO
Haruki KAWAHIGASHI
Yukitoshi ATSUMI
Hisakazu MIZUTANI

Executive Officer
Kazushige MURABAYASHI
Kazuhiko HATAKEYAMA

Corporate Auditors
Chiaki TAKANASHI
Noboru ISHIBASHI
Yasuhiro HARA
Yasusuke MIYAZAKI

(As of June 29, 2010)

Corporate Data of the Company

Head office
2-16-46, Minami-Kamata, Ohta-ku, Tokyo 144-8551, Japan
Tel: +81-3-3732-2111
Fax: +81-3-3736-0261

http://www.tokyo-keiki.co.jp

Date of Establishment
May 1, 1896

Common Stock
Authorized–250,000,000 shares
Issued – 85,382,196 shares

Number of Shareholders
8,700

Stock Listing
Tokyo Stock Exchange (Code:7721)

Number of Employees
1,101

Offices
Sapporo, Sendai, Nagano, Kanazawa, Sano, Shizuoka, Nagoya, Osaka, Kobe, Hiroshima, Yamaguchi, Imabari, Kitakyushu, Nagasaki

Plants
Nasu, Yaita, Sano, Tanuma (Tochigi Prefecture)
Hanno (Saitama Prefecture)

(As of March 31, 2010)

Companies of the TOKYO KEIKI Group

TOKYO KEIKI AVIATION INC.
2-1-1 Misugi-dai, Hanno-shi,
Saitama 357-0041
Phone:+81-429-71-0550 Fax:+81-429-71-0554

TOKYO KEIKI CUSTOMER SERVICE INC.
2-16-46 Minami-Kamata, Ohta-ku,
Tokyo 144-8551
Phone:+81-3-5710-6441 Fax:+81-3-5710-6442

TOKYO KEIKI POWER SYSTEMS INC.
168 Tada-cho, Sano-shi,
Tochigi 327-0311
Phone:+81-283-62-7330 Fax:+81-283-62-7305

TOKYO KEIKI INFORMATION SYSTEMS INC.
2-16-46 Minami-Kamata, Ohta-ku,
Tokyo 144-8551
Phone:+81-3-3731-9841 Fax:+81-3-3735-8310

TOKYO KEIKI TECHNOPORT INC.
2-16-46 Minami-Kamata, Ohta-ku,
Tokyo 144-8551
Phone:+81-3-3735-3731 Fax:+81-3-3732-2117

TOKYO KEIKI CONSTRUCTION SYSTEMS INC.
2-16-46 Minami-Kamata, Ohta-ku,
Tokyo 144-8551
Phone:+81-3-3731-2631 Fax:+81-3-3738-8670

TOKYO KEIKI RAIL TECHNO INC.
2-16-46 Minami-Kamata, Ohta-ku,
Tokyo 144-8551
Phone:+81-3-3732-7061 Fax:+81-3-3732-7050

MOCOS JAPAN CO.,LTD
3-9 Kaigandori, Naka-ku, Yokohama-shi
Kanagawa 231-0002
Phone:+81-45-671-8301 FAX:+81-45-671-8303

TOKYO KEIKI U.S.A., INC.
445 South Figueroa St. Suite 3770
Los Angeles, California, 90071 U.S.A.
Phone:+1-213-689-4747 Fax:+1-213-689-0303

TOKYO KEIKI KOREA POWER CONTROL CO., LTD.
Rm 803, 8th Wooree venture town 2, 82-29, Mullae-dong
3ga, Yeongdeungpo-gu, Seoul , KOREA
Phone:+82-2-2670-4631 Fax:+82-2-2672-5712

TOKYO KEIKI KOREA HYDRAULICS(wuxi) CO., LTD.
No. 240-4, Xida Road, Mei Cun,
National High-Tech Industrial Development Zone,
Wuxi City, Jiangsu Province, 214112
Peoples Republic of China
Phone:+86-510-8865-5303 FAX:+86-510-8865-5308

TOKYO KEIKI INC.