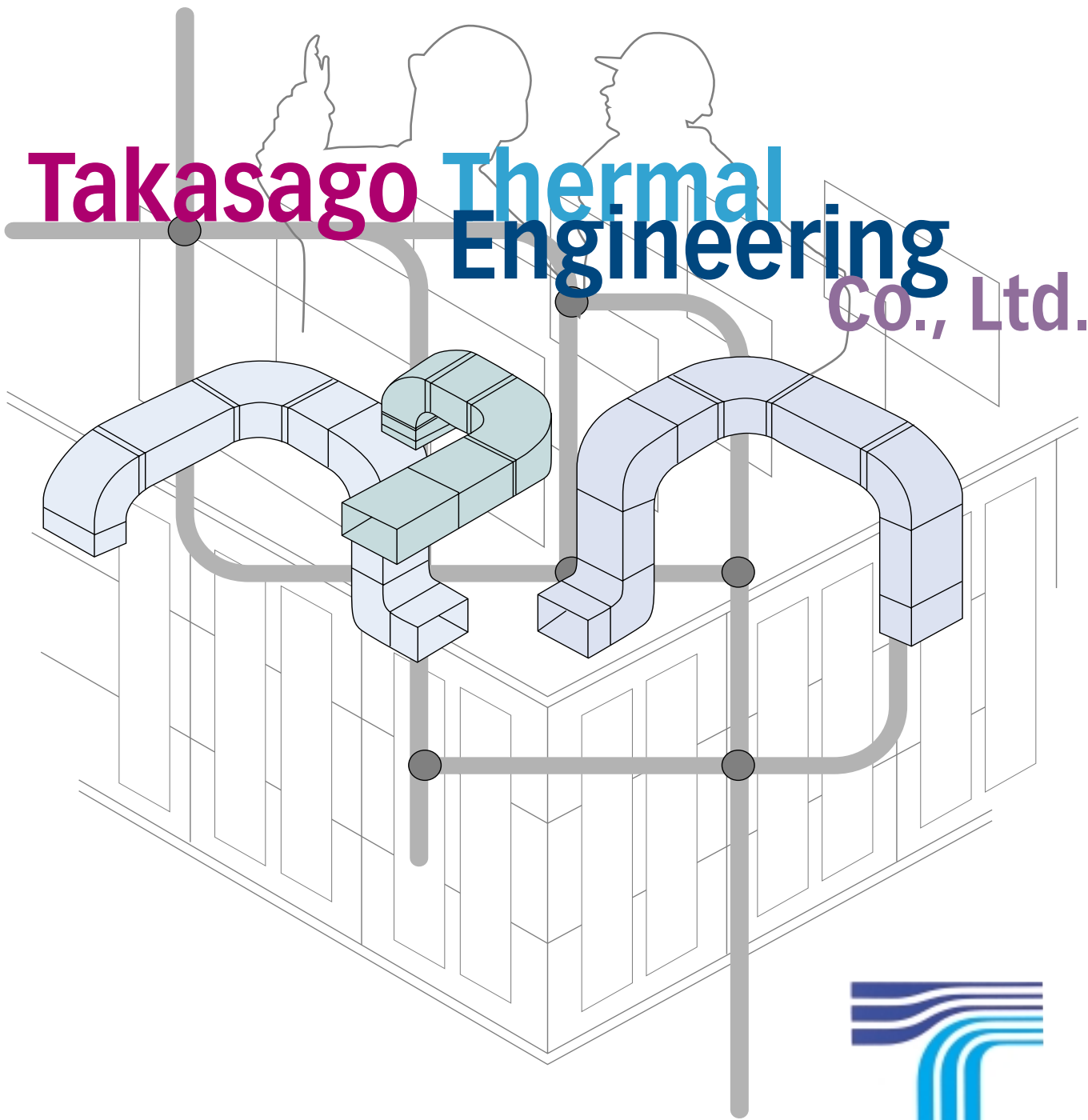


Takasago Thermal Engineering Co., Ltd.



annual report 2000

1 HVAC for Comfortable Environment

Takasago provides optimum air environments in a huge array of modern structures. These include office buildings, where “intelligent” functions are becoming increasingly common, crowded stations and airports, and hotels where the element of comfort is paramount. In addition, the company provides systems for key social facilities such as schools and hospitals, art galleries and museums, as well as vast complexes and skyscrapers that combine many of these functions. Takasago’s technical skill extends also to the environmental control of large indoor spaces such as domed stadiums, concert halls and theaters.

2 HVAC for Work Spaces

Takasago is playing a major role in preserving healthy working environments and raising efficiency at the factories of many of Japan’s best known manufacturers in such industries as automobiles and electrical appliances, in addition to precision equipment such as watches and cameras.

3 HVAC for Manufacturing Processes

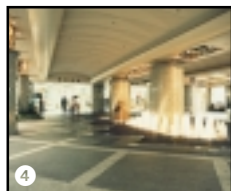
Process-related HVAC systems such as clean rooms and clean-dry rooms are essential to the precision processing technology at the core of information and communications equipment such as PCs, mobile phones and LCDs, as well as the pharmaceuticals, biotechnology and food products essential to healthy living. Over the years, Takasago has responded to changing customer needs by developing ultra-precise constant-temperature, constant-humidity technology; ultra-clean technology for the removal of dust, chemical contaminants and static electricity; and ultra-dry technology for preserving an extremely low dew point. By combining these techniques with its precision control expertise, Takasago contributes to raising productivity in manufacturing processes.

4 HVAC Renovations

When a building is renovated and its facilities updated, installing HVAC equipment is inevitably one of the most important tasks. Typically, these systems need to be replaced after 15 or 20 years, a much shorter period than the average building lifetime of 30 to 50 years. To respond to changes in a building’s use during its lifetime—and to continual demands for higher-performance systems—Takasago draws upon its vast experience in renovation and upgrading to propose HVAC solutions that meet the requirements of the time and add value to the building itself.

5 DHC (District Heating-and-Cooling) Systems

DHC systems are an effective means of both saving energy and purifying exhaust gas emissions. In addition, they help utilize limited energy resources and space more efficiently and provide reliable service in the event of an emergency. Offering the optimum combination of energy usage—electricity, gas and unused energy—the importance of DHC systems in countering global warming is set to increase from hereon. DHC systems also showcase Takasago’s expertise in heating technology expertise accumulated through years of experience.



profile

Founded in 1923, Takasago Thermal Engineering Co., Ltd. is Japan’s largest company specializing in Heating, Ventilation and Air Conditioning (HVAC). The company’s mission is to make people’s lives more pleasant and contribute to society as a whole by creating comfortable environments. Building upon a solid theoretical foundation in thermal dynamics, fluid dynamics and electronics, Takasago uses its own leading-edge technology to design and install systems that meet the requirements of a diverse variety of buildings.

During the past fiscal year, Takasago completed the ISO 14001 environmental management system certification of all its offices in Japan. This achievement will be followed by continued implementation of environmental preservation measures within Takasago’s business activities, including the reduction of emissions of carbon dioxide and CFCs.

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Some aspects of Japan's economy showed signs of improvement during the fiscal year ended March 31, 2000, as government stimulus measures began to take effect and companies stepped up investment in IT. Nevertheless, consumer spending remained in the doldrums and a sustainable recovery failed to materialize.

Amid this harsh operating environment, we vigorously expanded marketing activities and implemented measures designed to raise the efficiency of our operations. At the same time, we aggressively reined in costs by rationalizing procurement activities, ordering materials and work separately, and reducing fixed costs. Nevertheless, the slump in capital expenditure in Japan and the intensification of competition combined to push net sales down by 15.1% year on year to ¥196,168 million. Net income fell by 33.1% to ¥1,922 million. The dividend remained unchanged at ¥17.00 per share.

Our fundamental policy is to meet the HVAC needs of customers by developing distinctive core technologies and incorporating outstanding quality into all our systems. By doing so, we aim to reinforce our operating base and raise performance.

We also regard responding to environmental issues as a major obligation to society. This is why we ensured that every Takasago branch in Japan obtained ISO 14001 certification, the international standard for environmental management, by the end of 1999. From hereon, we intend to continue incorporating environmental preservation into all our operations. Reducing emissions of carbon dioxide and the leakage of CFCs into the atmosphere are two of the areas we are focusing on.

The challenging operating environment in the construction industry looks set to continue for the time being. To prevail against the competition, we intend to enhance our cost competitiveness, strengthen our corporate structure and improve results. I request your ongoing support as we put these measures into effect.



M a s a r u I s h i i
P r e s i d e n t

1

page

石井 勝

Financial Highlights

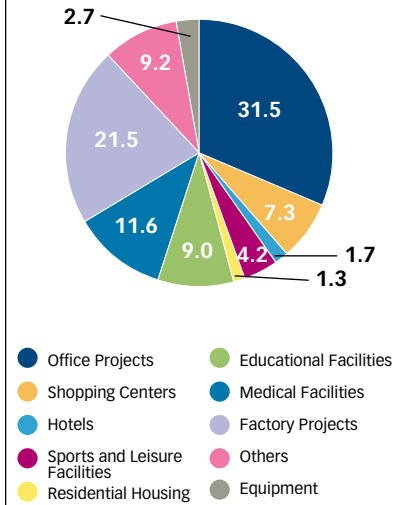
	Millions of yen					Thousands of U.S. dollars
	2000	1999	1998	1997	1996	2000
For the year:						
Orders received	¥206,818	¥212,561	¥246,918	¥240,163	¥225,406	\$1,948,356
Net sales	196,168	230,998	271,670	256,886	242,038	1,848,026
Operating income	4,628	5,809	9,213	8,248	9,852	43,599
Net income	1,922	2,872	4,343	3,957	4,806	18,106
Backlog of orders	189,972	179,322	197,759	222,512	239,235	1,789,656
At year end:						
Total assets	¥238,276	¥231,914	¥254,456	¥279,938	¥257,971	\$2,244,710
Shareholders' equity	80,875	79,468	78,400	75,855	73,654	761,894
	Yen					U.S. dollars
Per share:						
Net income	¥22.41	¥33.49	¥50.63	¥46.13	¥56.04	\$0.21
Cash dividends applicable to the year	17.00	17.00	17.00	17.00	17.00	0.16

Note: U.S. dollar amounts are translated from yen, for convenience only, at the rate of ¥106.15= US\$1.

ORDERS RECEIVED BY PROJECT • Orders received in the fiscal year ended March 31, 2000 decreased year on year by 2.7% to ¥206,818 million. The receipt of a series of orders for clean rooms and for large-scale urban redevelopment projects during the second half of the fiscal year was not enough to counter the ongoing slump in the renovation market. As a result, orders for general-purpose HVAC systems fell by 1.2% to ¥156,640 million, and orders for factory HVAC systems by 8.7% to ¥44,538 million. Orders for equipment rose year on year by 9.3% to ¥5,640 million. Overall, general-purpose HVAC equipment accounted for 75.8% of orders, factory HVAC systems for 21.5% and equipment for 2.7%.

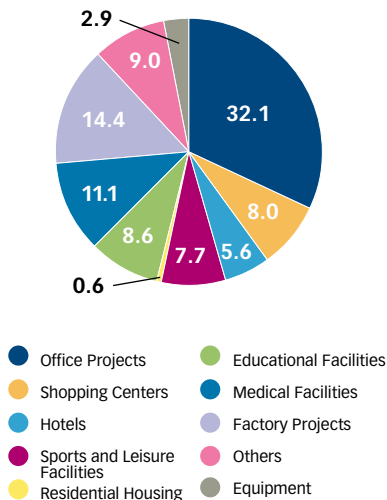
	Millions of yen		
	2000	1999	1998
Construction			
Office Projects	¥ 65,108	¥ 68,145	¥ 73,555
Shopping Centers	15,201	15,982	16,736
Hotels	3,588	9,894	14,084
Sports and Leisure Facilities	8,672	12,538	9,787
Residential Housing	2,779	2,220	3,573
Educational Facilities	18,523	18,825	16,808
Medical Facilities	23,912	14,805	21,357
Factory Projects	44,538	48,785	71,250
Others	18,857	16,209	14,452
Equipment	5,640	5,158	5,316
Total	¥206,818	¥212,561	¥246,918

2000 Orders Received by Project (%)



“General-purpose HVAC systems” includes all Construction items except Factory Projects.

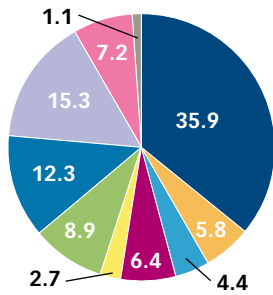
2000 Net Sales by Project (%)



NET SALES BY PROJECT • Net sales declined by 15.1% to ¥196,168 million. By sector, net sales of general-purpose HVAC systems declined by 0.5% to ¥162,149 million, and factory HVAC systems by 54.8% to ¥28,421 million. Net sales of equipment increased by 8.4% to ¥5,599 million. General-purpose HVAC systems accounted for 82.7% of net sales, factory HVAC systems for 14.4% and equipment for 2.9%.

	Millions of yen		
	2000	1999	1998
Construction			
Office Projects	¥ 63,012	¥ 68,701	¥ 80,525
Shopping Centers	15,627	15,743	19,330
Hotels	10,941	10,165	10,355
Sports and Leisure Facilities	15,015	9,679	10,119
Residential Housing	1,269	1,420	1,760
Educational Facilities	16,916	19,830	18,175
Medical Facilities	21,834	18,740	26,811
Factory Projects	28,421	62,825	69,503
Others	17,534	18,730	29,304
Equipment	5,599	5,165	5,788
Total	¥196,168	¥230,998	¥271,670

2000 Backlog of Orders by Project (%)



- Office Projects
- Shopping Centers
- Hotels
- Sports and Leisure Facilities
- Residential Housing
- Educational Facilities
- Medical Facilities
- Factory Projects
- Others
- Equipment

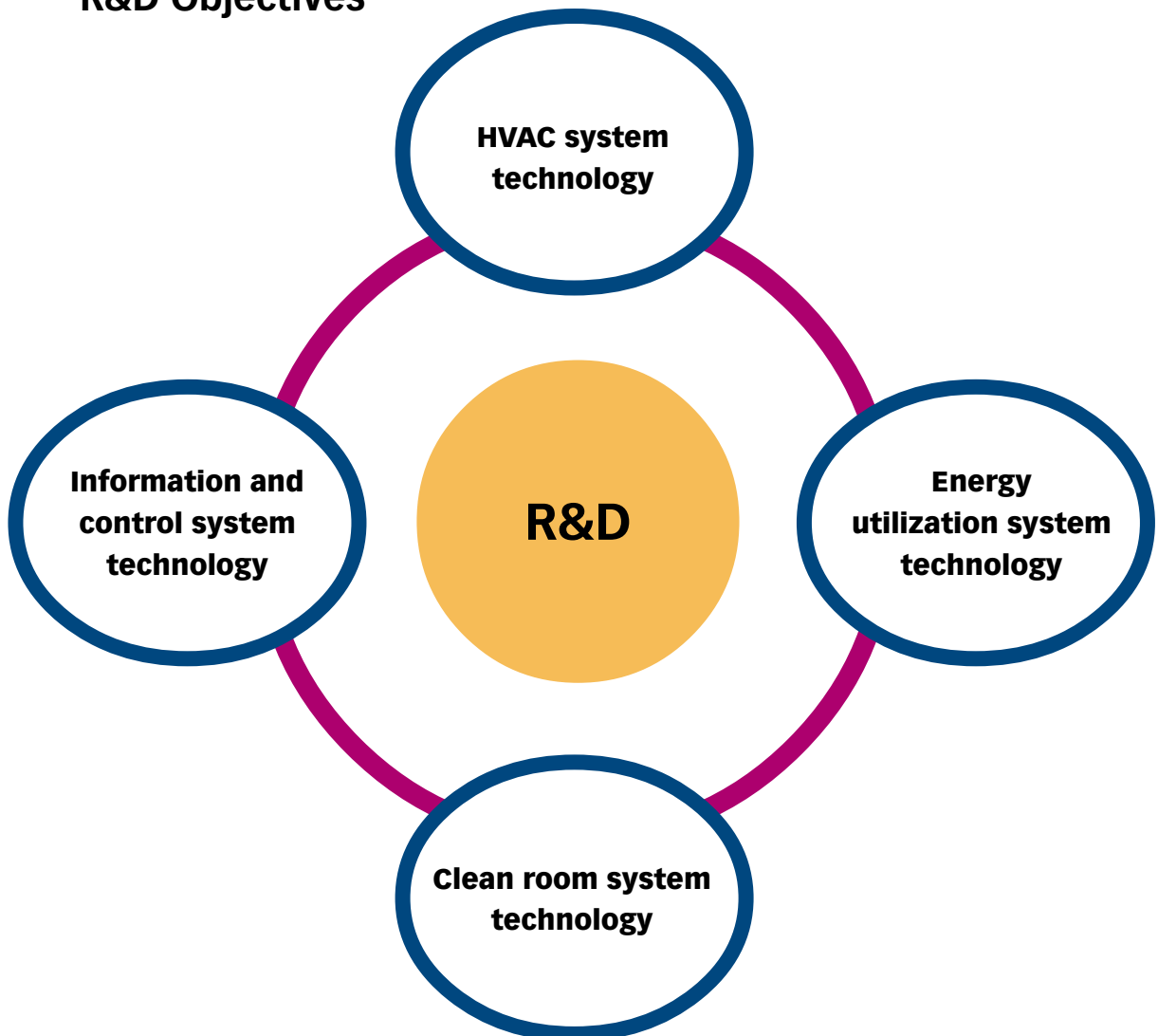
BACKLOG OF ORDERS BY PROJECT • The backlog of orders at the end of the fiscal year stood at ¥189,972 million, representing a year-on-year increase of 5.9%.

	Millions of yen		
	2000	1999	1998
Construction			
Office Projects	¥ 68,233	¥ 66,136	¥ 66,490
Shopping Centers	11,038	11,464	11,060
Hotels	8,402	15,755	16,026
Sports and Leisure Facilities	12,220	18,562	15,703
Residential Housing	5,202	3,692	2,892
Educational Facilities	16,916	15,309	16,314
Medical Facilities	23,313	21,234	25,169
Factory Projects	29,087	12,969	27,009
Others	13,395	12,076	14,964
Equipment	2,166	2,125	2,132
Total	¥189,972	¥179,322	¥197,759

OVERSEAS BUSINESS • Takasago's Singapore, Hong Kong and Taiwan branches have established a strong track record in the supply of clean rooms for high-tech factories and HVAC systems for high-rise buildings, shopping centers and other such large-scale establishments. In China, we have set up representative offices in Shen Zhen and Suzhou, focal points for many Japanese, European and U.S. companies, and we are participating in several regional development projects sponsored by the Chinese government. We have also set up local companies in Malaysia, Thailand and the Philippines as part of our strategy to raise our presence in Southeast Asia.

HVAC TECHNOLOGY, THE CORE BUSINESS OF TAKASAGO, HAS BECOME AN INDISPENSABLE ELEMENT IN CREATING ENHANCED BUILDING AND URBAN ENVIRONMENTS, AND A KEY ASPECT IN THE DESIGN OF MANUFACTURING FACILITIES. CREATING THE OPTIMUM ENVIRONMENT THROUGH HVAC SYSTEMS INVOLVES FAR MORE THAN SIMPLY ADJUSTING AIR TEMPERATURE AND HUMIDITY; IT CALLS FOR THE COMPLETE CONTROL OF A WIDE RANGE OF FACTORS SUCH AS AIR FLOW, DISTRIBUTION, PRESSURE AND CLEANLINESS TO MEET EXACTING REQUIREMENTS. TAKASAGO DEVELOPS DISTINCTIVE HVAC TECHNOLOGIES WITH THE AIM OF PROVIDING THE MOST COMFORTABLE ENVIRONMENT POSSIBLE FOR ITS CUSTOMERS.

R&D Objectives



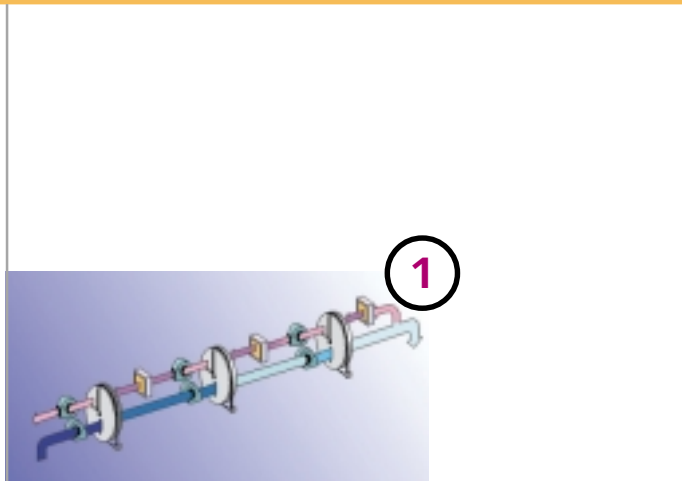
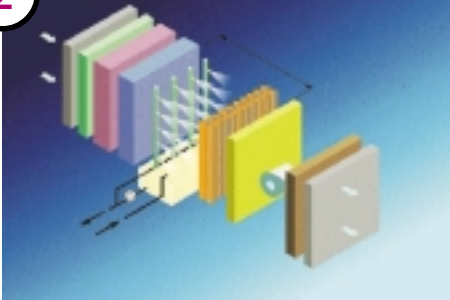
Recent Developments

CDASS-100: Clean-Dry-Air-Supply System

CDASS-100 supplies air that is free of chemical contaminants and is so dry that it has a dew point below -100°C . CDASS-100 was developed primarily with semiconductor manufacturing processes in mind. Until now, the native oxide growth of wafers was prevented by the use of nitrogen gas either as a clean stocker or as part of a wafer cleaning process.

However, use of ultra-low-dew-point air provided by CDASS-100 instead of nitrogen improves safety by eliminating the danger of suffocation through nitrogen leaks. CDASS-100 can also be operated at $\text{¥}0.2/\text{m}^3 \sim \text{¥}0.4/\text{m}^3$, making possible a 98% reduction in running costs compared to nitrogen-based systems. As such, CDASS-100 represents a major contribution to the creation of safe, low-cost semiconductor manufacturing processes.

2



1

T-GET®II: Chemical Washer for Clean Rooms

Minute quantities of gaseous chemical contaminants in the air can have a major impact on yield rates in the manufacture of electronic devices. T-GET®II was developed to remove with maximum efficiency water-soluble gases that enter the clean room along with air from outside. This wet air purifier features Takasago's unique water absorption eliminator technology. The atomized water is supplied to the hydrophilic eliminator, where much of gaseous contaminants are removed. The amount of atomized pure water has been reduced to 1/20-1/40 compared with conventional air washers by installing the hydrophilic eliminator.

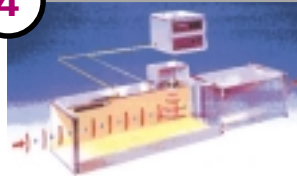
3



TIOS®-OZ: Ceramic Chemical Filter

Ozone can cause unevenness in the oxidized layers formed on silicon wafers during the semiconductor production process. This deteriorates the device characteristics of electric capacitance and dielectric breakdown voltage. Takasago developed a chemical filter, the TIOS-OZ to solve this problem. TIOS-OZ, having a ceramic honeycomb structure with metal oxides as a catalyst, is capable of decomposing even the smallest traces of ozone found in clean rooms. Furthermore, this chemical filter can maintain a high decomposition rate over long periods of time, and has the benefits of low operating costs and incombustibility.

4



TNCS®: Active Noise Reduction System

Sound interference reduction technology has always had problems dealing with frequencies of less than 500Hz. Attempts to rectify this invariably led to cumbersome silencers with a large number of "elbow" structures. Instead of attempting to absorb the noise, active sound interference reduction systems solve this problem by utilizing the destructive interference of secondary sound waves that are 180° out of phase with the original sound source. TNCS® features a phase-delay system using feed-forward control technology. This system is being marketed in the form of duct units that incorporate one microphone-attached wind screen and speaker.

5



LUFT®: Low Under Floor Type HVAC System

LUFT® makes possible the utilization of under-floor space of less than 100mm in depth as an air-supply chamber. Takasago's design and installation technology ensures a uniform flow of air, even in cases where under-floor space is extremely limited. The system includes Takasago's unique air outlets which, when in heating mode, deliver foot-level warmth by making use of the Coanda effect, whereby air-flows hug the contours of the floor. When used in cooling mode, LUFT® uses the induction effect to draw in the surrounding air and create a stream of air at a comfortable temperature. Combining low initial and running costs with a high degree of comfort, LUFT® is the ideal under-floor heating system for installation during building renovation.

**CONSOLIDATED STATEMENTS
OF INCOME**

In the fiscal year ended March 31, 2000, net sales fell year on year by ¥34,830 million, or 15.1%, to ¥196,168 million. Much of this decline is accounted for by the slump in private-sector capital expenditure that led to a marked decrease in sales of factory HVAC systems, including clean rooms.

Cost of sales decreased by ¥32,294 million, or 15.5%, to ¥176,593 million. This was mainly due to the rationalization of procurement and the ordering of materials and work separately. Selling, general and administrative expenses decreased by ¥1,355 million, or 8.3%, to ¥14,947 million, mainly due to cost-reduction measures in personnel and in office supplies. As a result of the above, operating income fell by ¥1,181 million, or 20.3%, to ¥4,628 million.

Under other income (expenses), expenses of ¥6,209 million were recorded, primarily relating to a shortfall

in funding for retirement benefits, and gains of ¥5,310 million, mainly from the sale of marketable securities. Net income decreased by ¥950 million, or 33.1%, to ¥1,922 million and ROE dropped from 3.6% to 2.4%. Net income per share fell from ¥33.49 to ¥22.41. The annual dividend remained unchanged at ¥17.00 per share.

FINANCIAL POSITION

Total assets at the end of the year were ¥238,276 million, an increase of ¥6,362 million, or 2.7%, compared with a year ago. Although current assets were largely unchanged, investments and other assets increased due to the purchase of investment securities and the inclusion of deferred tax assets. On the other side of the balance sheet, while current liabilities were virtually the same as a year earlier, fixed liabilities increased due to the bringing forward of recognition of increased liabilities for retirement benefits. As a result, total liabilities

increased by 3.3% to ¥157,401 million. Shareholders' equity increased to ¥80,875 million and the equity ratio was 33.9%, against 34.3% a year earlier.

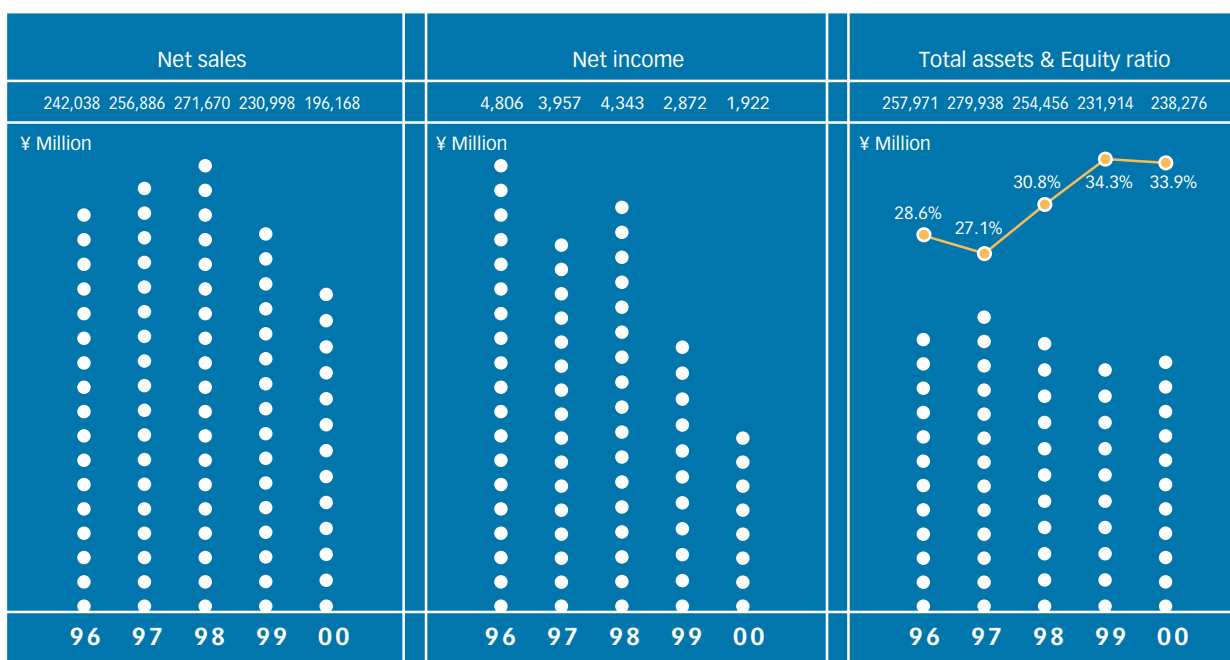
CASH FLOWS

Net cash provided by operating activities amounted to ¥8,333 million. Although income before income taxes decreased year on year by ¥2,523 million to ¥3,729 million, the balance of income and cost for construction projects improved.

Net cash used in investing activities amounted to ¥951 million, primarily reflecting investment in time deposits and the purchase of investment securities.

Financing activities used cash of ¥1,838 million, as cash dividends paid offset net proceeds from long-term debt.

As a result of the foregoing, cash and cash equivalents at the end of the year stood at ¥45,271 million.



Consolidated Balance Sheets

Takasago Thermal Engineering Co., Ltd. and A Consolidated Subsidiary
March 31, 2000 and 1999

ASSETS	Millions of yen		Thousands of U.S. dollars (Note 1)	
	2000	1999	2000	1999
Current assets:				
Cash and time deposits	¥ 60,723	¥ 55,813	\$ 572,049	\$ 525,794
Marketable securities (Note 4)	11,119	12,001	104,748	113,057
Notes and accounts receivable – trade	75,629	82,453	712,473	776,759
Less allowance for doubtful accounts	(286)	(386)	(2,694)	(3,636)
Cost of uncompleted contracts	33,241	34,289	313,151	323,024
Other current assets	10,809	8,957	101,827	84,380
Total current assets	191,235	193,127	1,801,554	1,819,378
 Property, plant and equipment – at cost (Note 6):				
Land	2,215	2,215	20,867	20,867
Buildings and structures	8,224	8,252	77,475	77,739
Machinery	536	538	5,049	5,068
Equipment	2,947	3,217	27,763	30,306
	13,922	14,222	131,154	133,980
Less accumulated depreciation	(6,632)	(6,417)	(62,478)	(60,452)
	7,290	7,805	68,676	73,528
 Investments and other assets:				
Investment securities (Note 4)	19,517	13,522	183,862	127,386
Investments in unconsolidated subsidiaries and affiliated companies	683	590	6,434	5,558
Guarantee deposits	5,427	6,136	51,126	57,805
Long-term insurance contribution	8,774	8,507	82,656	80,141
Other	5,454	2,392	51,380	22,534
Less allowance for doubtful accounts	(104)	(165)	(978)	(1,554)
	39,751	30,982	374,480	291,870
	¥238,276	¥231,914	\$2,244,710	\$2,184,776

See accompanying notes.

LIABILITIES AND SHAREHOLDERS' EQUITY	Millions of yen		Thousands of U.S. dollars (Note 1)	
	2000	1999	2000	1999
Current liabilities:				
Bank loans (Note 6)	¥ 15,227	¥ 15,974	\$ 143,448	\$ 150,485
Long-term debt due within one year (Note 6)	2,891	2,641	27,235	24,880
Notes and accounts payable – trade	88,391	93,510	832,699	880,923
Advances received on uncompleted contracts	20,525	21,811	193,358	205,473
Income taxes payable (Note 7)	2,957	984	27,857	9,270
Allowance for claim expenses	218	220	2,054	2,073
Other current liabilities	13,773	9,274	129,750	87,367
Total current liabilities	143,982	144,414	1,356,401	1,360,471
Long-term debt due after one year (Note 6)	3,135	3,019	29,533	28,441
Retirement benefits (Note 8)	9,645	4,306	90,862	40,565
Other non-current liabilities	639	707	6,020	6,660
Contingent liabilities (Note 11)	230	760	2,167	7,160
Shareholders' equity (Note 9):				
Common stock, par value ¥50 per share:				
Authorized — 200,000,000 shares				
Issued — 85,765,768 shares	13,135	13,135	123,740	123,740
Additional paid-in capital	12,854	12,854	121,093	121,093
Retained earnings	54,887	53,481	517,070	503,825
	80,876	79,470	761,903	748,658
Treasury stock, at cost	(1)	(2)	(9)	(19)
Total shareholders' equity	80,875	79,468	761,894	748,639
	¥238,276	¥231,914	\$2,244,710	\$2,184,776

Consolidated Statements of Shareholders' Equity

Takasago Thermal Engineering Co., Ltd. and A Consolidated Subsidiary
 Years ended March 31, 2000 and 1999

	Number of shares of common stock	Millions of yen		
		Common stock	Additional paid-in capital	Retained earnings
Balance at March 31, 1998	85,765,768	¥ 13,135	¥ 12,854	¥ 52,412
Net income	—	—	—	2,872
Cash dividends paid (¥17 per share)	—	—	—	(1,458)
Bonuses to directors and corporate auditors	—	—	—	(345)
Balance at March 31, 1999	85,765,768	13,135	12,854	53,481
Cumulative effect of adopting deferred income tax accounting	—	—	—	1,206
Net income	—	—	—	1,922
Cash dividends paid (¥17 per share)	—	—	—	(1,458)
Bonuses to directors and corporate auditors	—	—	—	(264)
Balance at March 31, 2000	85,765,768	¥13,135	¥12,854	¥54,887

	Thousands of U.S. dollars (Note 1)		
	Common stock	Additional paid-in capital	Retained earnings
Balance at March 31, 1998	\$ 123,740	\$ 121,093	\$ 493,754
Net income	—	—	27,056
Cash dividends paid (\$0.16 per share)	—	—	(13,735)
Bonuses to directors and corporate auditors	—	—	(3,250)
Balance at March 31, 1999	123,740	121,093	503,825
Cumulative effect of adopting deferred income tax accounting	—	—	11,361
Net income	—	—	18,106
Cash dividends paid (\$0.16 per share)	—	—	(13,735)
Bonuses to directors and corporate auditors	—	—	(2,487)
Balance at March 31, 2000	\$123,740	\$121,093	\$517,070

See accompanying notes.

Consolidated Statements of Cash Flows

Takasago Thermal Engineering Co., Ltd. and A Consolidated Subsidiary
Year ended March 31, 2000

	Millions of yen	Thousands of U.S. dollars (Note 1)
	2000	2000
Cash flows from operating activities:		
Income before income taxes	¥ 3,729	\$ 35,130
Adjustments to reconcile income before income taxes to net cash provided by operating activities:		
Depreciation and amortization	770	7,254
Gain on sale of marketable and investment securities	(4,883)	(46,001)
Provision for retirement benefits	5,338	50,287
Decrease in trade receivables	7,209	67,913
Decrease in cost of uncompleted contracts	1,047	9,863
Decrease in trade payables	(5,119)	(48,224)
Decrease in advances received on uncompleted contracts	(1,286)	(12,115)
Other— net	3,594	33,858
	10,399	97,965
Interest and dividends received	780	7,348
Interest paid	(389)	(3,665)
Income taxes paid	(2,457)	(23,146)
Net cash provided by operating activities	8,333	78,502
Cash flows from investing activities:		
Purchase of marketable and investment securities	(13,422)	(126,444)
Proceeds from sale of marketable and investment securities	12,204	114,969
Purchase of property, plant and equipment	(258)	(2,431)
Payments of long-term insurance contribution	(1,425)	(13,424)
Proceeds from long-term insurance contribution	1,158	10,909
Other— net	792	7,462
Net cash used in investing activities	(951)	(8,959)
Cash flows from financing activities :		
Net decrease in bank loans	(732)	(6,896)
Proceeds from long-term debt	3,249	30,608
Payments of long-term debt	(2,898)	(27,301)
Cash dividends paid	(1,458)	(13,735)
Other— net	1	9
Net cash used in financing activities	(1,838)	(17,315)
Change in cash and cash equivalents	(279)	(2,628)
Net decrease in cash and cash equivalents	5,265	49,600
Cash and cash equivalents at beginning of year	40,006	376,881
Cash and cash equivalents at end of year	¥ 45,271	\$ 426,481

Consolidated Statements of Cash Flows

Takasago Thermal Engineering Co., Ltd. and A Consolidated Subsidiary
Year ended March 31, 1999

	Millions of yen	Thousands of U.S. dollars (Note 1)
	1999	1999
Cash flows from operating activities:		
Net income	¥ 2,872	\$ 27,056
Adjustments to reconcile net income to net cash used in operating activities:		
Depreciation and amortization	598	5,634
Loss on sale of marketable and investment securities	221	2,082
Provision for retirement benefits	(143)	(1,347)
Other—net	135	1,272
Changes in assets and liabilities:		
Decrease in trade receivables	4,912	46,274
Decrease in cost of uncompleted contracts	5,552	52,303
Decrease in trade payables	(11,153)	(105,068)
Decrease in advances received on uncompleted contracts	(3,627)	(34,169)
Decrease in income taxes payable	(1,829)	(17,230)
Decrease in deposit received	(141)	(1,329)
Other—net	(2,601)	(24,503)
Net cash used in operating activities	(5,204)	(49,025)
Cash flows from investing activities:		
Purchase of property, plant and equipment	(763)	(7,188)
Purchase of marketable and investment securities	(10,492)	(98,842)
Proceeds from sale of marketable and investment securities	7,778	73,274
Other—net	(533)	(5,021)
Net cash used in investing activities	(4,010)	(37,777)
Cash flows from financing activities:		
Proceeds from long-term debt	5,688	53,585
Payments of long-term debt	(5,455)	(51,390)
Net decrease in bank loans	(784)	(7,386)
Cash dividends paid	(1,458)	(13,735)
Other—net	(347)	(3,269)
Net cash used in financing activities	(2,356)	(22,195)
Net decrease in cash and time deposits	(11,570)	(108,997)
Cash and time deposits at beginning of year	67,383	634,791
Cash and time deposits at end of year	¥ 55,813	\$ 525,794

1. Basis of presenting consolidated financial statements

Takasago Thermal Engineering Co., Ltd. (the "Company") and its consolidated domestic subsidiary maintain their accounts and records in accordance with the provisions set forth in the Japanese Commercial Code and the Securities and Exchange Law and in conformity with accounting principles and practices generally accepted in Japan, which are different from the accounting and disclosure requirements of International Accounting Standards.

The accompanying consolidated financial statements are a translation of the audited consolidated financial statements of the Company which were prepared in accordance with accounting principles and practices generally accepted in Japan from the accounts and records maintained by the Company and its consolidated subsidiaries and were filed with the Minister of Finance ("MOF") as required by the Securities and Exchange Law.

In preparing the accompanying consolidated financial statements, certain reclassifications have been made in the consolidated financial statements issued domestically in order to present them in a form which is more familiar to readers outside Japan. The consolidated statements of shareholders' equity for 2000 and 1999 and cash flows for 1999 have been prepared for the purpose of inclusion in the consolidated financial statements, although such statements were not customarily prepared in Japan and were not required to be filed with MOF.

The translation of the Japanese yen amounts into U.S. dollars are included solely for the convenience of the reader, using the prevailing exchange rate at March 31, 2000, which was ¥106.15 to U.S.\$1.00. The convenience translations should not be construed as representations that the Japanese yen amounts have been, could have been, or could in the future be, converted into U.S. dollars at this or any other rate of exchange.

2. Summary of significant accounting policies

Consolidation — The Company prepared the consolidated financial statements for the year ended March 31, 2000 in accordance with the revised Accounting Principles for Consolidated Financial Statements (the "Revised Accounting Principles") effective from the year ended March 31, 2000. The consolidated financial statements for 2000 includes the accounts of the Company and a significant company which are controlled by the Company through substantial ownership of more than 50% of the voting rights and existence of certain conditions evidencing control by the Company of the decision-making body of such companies. Under the Revised Accounting Principles, certain companies of which the Company has at least 15% and less than 20% of the voting rights in the cases where the Company has the ability to exercise significant influence over operating and financial policies of the investees are also accounted for using the equity method.

Previously, only majority-owned companies were consolidated and only investments in companies of which the Company owns 20% to 50% of the voting rights and has the ability to significantly financial, operational or business policies were accounted for using the equity method. There were no effect of applying the Revised Accounting Principles to the Company's consolidated financial statements. The prior years' consolidated financial statements have not been restated. Material inter-company balances, transaction and profits have been eliminated in consolidation.

The consolidated financial statements include the accounts of the Company and a significant subsidiary "Nihon Pmac Co., Ltd."

All significant inter-company transactions and accounts have been eliminated in consolidation.

The investments in unconsolidated subsidiaries and affiliated companies are stated at cost as they are insignificant in the aggregate.

Marketable securities and investment securities — Securities (both quoted and non-quoted) are stated at cost determined by the moving-average method and written down to the market price or an estimated realizable value if the securities have been significantly impaired and the impairment is not considered to be recoverable.

Allowance for doubtful accounts — Allowance for doubtful accounts is provided in amounts sufficient to cover possible losses on collection. It consists of the estimated uncollectible amount with respect to identified doubtful accounts and an amount calculated according to the formula provided by the Japanese tax regulations with respect to the remaining receivables.

Allowance for claim expenses — Allowance for claim expenses is provided in amounts sufficient to cover possible claim expenses on completed contracts. The Company adopts the method of providing the allowance based on the estimated amount of payments for future claims which may be filed on contracts completed during the year.

Construction contracts — Construction contracts of the Company are accounted for by the completed contract method.

Expenditures on uncompleted contracts to be charged to cost of contracts at the time of completion are included in current assets. These expenditures are not offset against advances received on uncompleted contracts, which are instead included in current liabilities. No profits or losses, therefore, are recognized before the completion of the work.

Construction contracts which amount will be collected in long-term installment payments are accounted for on the installment basis in accordance with the Japanese tax regulations. For the years ended March 31, 2000 and 1999, no such contracts were outstanding.

Property, plant and equipment — Property, plant and equipment are stated at cost. For both financial reporting and income tax purposes, depreciation is computed using the declining-balance method over their useful lives as prescribed in the Japanese tax regulations.

Software costs — In accordance with the provisional rule of the JICPA's Accounting Committee Report No.12 "Practical Guidance for Accounting for Research and Development Costs, etc." (the "Report"), the Company accounts for software which was included in long-term prepaid expenses in investments and other in the same manner in 2000 as in 1999. Pursuant to the Report, however, the Company included software in intangible assets in 2000 and depreciated it using the straight-line method over the estimated useful lives (five years). The amount for 1999 has been reclassified to conform to the 2000 presentation.

Certain lease transactions — Finance leases except these for which the ownership of the leased assets is considered to be transferred to the lessee, are not capitalized and accounted for in the same manner as operating leases (non-capitalized finance leases).

Retirement benefits — Employees' retirement benefits are provided through three arrangements, an unfunded lump-sum benefit plan and two funded pension plans. Under the terms of the Company's retirement plan, substantially all employees are entitled to a lump-sum payment at the time of retirement. The amount of retirement benefits is, in general, based on the length of service, basic salary at the time of retirement and cause of retirement. The liability for lump-sum payments is stated at 100% of the amount which would be required if all eligible employees voluntarily terminated employment at the balance sheet date, less the portions expected to be covered by the pension plans.

Prior to April 1, 1999, allowance for retirement benefits for employees had been provided at 40% of the amount which would be required if all eligible employees voluntarily terminated employment at the balance sheet date, less the portions expected to be covered by the pension plans. Effective from the year ended March 31, 2000, Takasago Thermal Engineering Co., Ltd. and a consolidated subsidiary provided 100% instead of 40% of the amount which would be required if all eligible employees voluntarily terminated employment at the balance sheet date, less the portions expected to be covered by the pension plans.

The change resulted in a decrease, in operating income by ¥23 million (\$217 thousand) and in increases in income before income taxes and other items by ¥5,275 million (\$49,694 thousand).

The change was made in order to strengthen the financial position of the Company. The Company realized that the portion of the employees' retirement benefits that was not covered by the liabilities was very large, since the amounts of retirement payments were estimated to increase in the future due to such factors as the numbers of employees by age group, estimated rate of employees' severance in the future, etc.

The Company and its consolidated subsidiary have contributory and non-contributory plan funded pension plans covering substantially all employees. Eligibility for enrollment in the contributory plan is 5 or more years of service and 23 or more years of age. Eligibility for the non-contributory is 3 or more years of service. Annual contributions, which consist of current period costs and amortization of prior service costs over 8.5 years and 20 years, respectively, are charged to income when paid.

The liability for retirement benefits to directors and corporate auditors are fully accrued and included in "Retirement benefits" in the accompanying balance sheets.

Bonuses to directors and corporate auditors — Bonuses to directors and corporate auditors, which are subject to shareholders' approval at the annual shareholders' meeting under the Commercial Code of Japan, are accounted for as appropriations of retained earnings.

Income taxes — The Company provided income taxes at the amounts currently payable for the years through March 31, 1999. Effective April 1, 1999, the Company adopted the new accounting standard, which recognizes tax effects of temporary differences between the financial statement carrying amounts and the tax basis of assets and liabilities. Under the new accounting standard, the provision for income taxes is computed based on the pretax income included in the consolidated statement 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.

The amount of deferred income taxes attributable to the net tax effects of the temporary differences at April 1, 1999, is reflected as an adjustment of ¥1,206 million (\$11,361 thousand) to the retained earnings brought forward from the previous year. Prior years' financial statements have not been restated.

The effect for the year ended March 31, 2000 was to increase net income by ¥2,622 million (\$24,701 thousand) and the retained earnings at that date by ¥3,828 million (\$36,062 thousand).

Foreign currency translation — Current monetary assets and liabilities denominated in foreign currencies are translated into Japanese yen at the rate of exchange in effect at the balance sheet date. Non-current monetary assets and liabilities are translated at historical rate.

Revenues and expenses resulted from the Company's overseas operations are translated at the rate of exchange prevailing when the relevant transaction was made. Exchange gains and losses are credited or charged to income.

Amounts per share of common stock — In computing net income per share of common stock, the average number of shares outstanding during each fiscal year has been used.

Diluted net income per share is not presented, since the Company has never issued any securities with dilute effect.

Cash dividends per share represent actual amounts declared as applicable to the respective years.

Reclassifications — Certain prior year amounts have been reclassified to conform to 2000 presentation. These changes had no impact on previously reported results of operations or shareholders' equity.

Cash flow statement and cash and cash equivalents — In preparing the consolidated statements of cash flows, cash on hand, readily-available deposits and short-term highly liquid investments with maturities of not exceeding three months at the time of purchase are considered to be cash and cash equivalents.

The Company prepared the 2000 consolidated cash flow statement as required by and in accordance with the "Standards for Preparation of Consolidated Cash Flow Statements, etc." effective from the year ended March 31, 2000. The 1999 consolidated cash flow statement, which was voluntarily prepared for the purpose of inclusion in the consolidated financial statements in a form familiar to readers outside Japan, has not been restated. Significant differences in the consolidated cash flow statements for 2000 and 1999 include the use of pretax income in 2000 instead of net income in 1999, additional disclosure in cash flows from operating activities in 2000 of interest expense, income tax expense, interest and dividend income and interest and dividend received.

3. Cash and cash equivalents

Cash and cash equivalents at March 31, 2000 consisted of the following:

	Millions of yen	Thousands of U.S.dollars
2000		
Cash and time deposits	¥ 60,723	\$ 572,049
Time deposits over three months	(14,051)	(132,369)
Special trust fund	(1,401)	(13,199)
Cash and cash equivalents	¥ 45,271	\$ 426,481

4. Market value information for securities

At March 31, 2000 and 1999, book value, market value and net unrealized gains of quoted securities were as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)	
	2000	1999	2000	1999
Book value:				
Current	¥ 7,818	¥ 8,594	\$ 73,650	\$ 80,961
Non-current	17,518	11,529	165,031	108,611
	25,336	20,123	238,681	189,572
Market value:				
Current	9,420	10,360	88,742	97,598
Non-current	18,762	16,054	176,750	151,239
	28,182	26,414	265,492	248,837
Net unrealized gains	¥ 2,846	¥ 6,291	\$ 26,811	\$ 59,265

5. Derivative transactions — the Company only

Status of derivative transaction

The Company utilizes, at present, only forward foreign exchange contracts as derivative transactions, in order to hedge foreign currency risks arising from time deposit.

At the end of the year, the Company had forward foreign exchange contracts to sell foreign currencies for hedging foreign currency denominated time deposit and its interest.

The derivative transactions are made solely with highly rated financial institutions, therefore, the Company expects credit risk is low.

The contracts relating to foreign currency denominated time deposit were approved by the General Manager of Accounting and Finance and contracted by Accounting and Finance department, and then the results will be reported to the General Manager of operations.

Market value of derivative transactions

The aggregate amounts contracted to be paid or received and the fair value of derivative transactions in Japanese yen only of the Company at March 31, 2000 and 1999 were as follows:

Currency related derivatives:

	Millions of yen			
	Contract amount		Market value	Unrealized gain (loss)
2000	Total	Due after one year		
Forward contracts:				
To sell:				
U.S. dollars	¥99	—	¥99	—
Total	¥99	—	¥99	—
	Millions of yen			
1999	Contract amount		Market value	Unrealized gain (loss)
	Total	Due after one year		
Forward contracts:				
To sell:				
U.K. pound	¥41	—	¥41	—
Total	¥41	—	¥41	—

The above market value has been calculated based on the forward rates submitted by the city bank.

6. Bank loans and long-term debt

Bank loans at March 31, 2000 and 1999 were represented by short-term notes, bearing interest principally at 1.375% to 1.875% per annum and at 1.4% to 1.9% per annum, respectively. The Company has had no difficulty in renewing such notes when it considered such renewal advisable.

Long-term debt at March 31, 2000 and 1999 consisted of the following:

	Millions of yen		Thousands of U.S. dollars (Note 1)	
	2000	1999	2000	1999
Loans principally from banks and insurance companies:				
Secured, at interest rates of 1.95% to 3% maturing through 2004 with respect to 2000 and 2.2% to 2.6% maturing through 2003 with respect to 1999	¥ 1,500	¥ 1,536	\$ 14,131	\$ 14,470
Unsecured, at interest rates of 1.7% to 2.3% maturing through 2004 with respect to 2000 and 2.0 % to 3.2% maturing through 2003 with respect to 1999	4,526	4,124	42,638	38,851
	6,026	5,660	56,769	53,321
Less amount due within one year	(2,891)	(2,641)	(27,235)	(24,880)
	¥ 3,135	¥ 3,019	\$ 29,534	\$ 28,441

As is customary in Japan, security must be given if requested by a lending bank and such bank has the right to offset cash deposited with it against any debt or obligation that becomes due and, in the case of default or certain other specified events, against all debt payable to the bank. The Company has never received any such request.

The annual maturities of long-term debt at March 31, 2000 were as follows:

Years ending March 31,	Millions of yen	Thousands of U.S. dollars (Note 1)
2001	¥2,891	\$27,235
2002	1,927	18,154
2003	976	9,195
2004	232	2,186

At March 31, 2000 assets pledged as collateral for long-term debt and guarantees were as follows:

	Millions of yen	Thousands of U.S. dollars (Note 1)
Property, plant and equipment (Net of accumulated depreciation)	¥304	\$2,864
	¥304	\$2,864

7. Income taxes

Taxes on income consist of corporation, enterprise and inhabitants taxes. The aggregate normal effective tax rate on income before income taxes was approximately 42.1 % for 2000 and 1999.

The actual effective tax rate in the accompanying statements of income differed from the normal effective tax rate primarily as a result of expenses not deductible for tax purposes, and the effect of temporary differences in recognizing revenue and expenses for financial statements and tax returns.

The following table summarizes the significant differences between the statutory tax rate and the Company's effective tax rate for financial statement purposes for the year ended March 31, 2000:

Statutory tax rate	42.1%
Non-taxable dividend income	(3.9)
Non-deductible expenses	8.9
Per capital inhabitant tax	2.5
Other	(1.1)
Effective tax rate	48.5%

Significant components of the Company's deferred tax assets and liabilities as of March 31, 2000 were as follows:

	Millions of yen
Deferred tax assets:	
Retirement benefits	¥2,835
Enterprise taxes	310
Write down of investment securities	178
Write down of golf membership	185
Other	320
Total deferred tax assets	3,828
Valuation allowance	—
Net deferred tax assets	¥3,828

8. Retirement benefits

Total assets held by a pension plan amounted to ¥6,513 million (\$61,357 thousand) at August 31, 1999 and those held by the other plan amounted to ¥6,285 million (\$59,209 thousand) at March 31, 1999, the latest dates when such information is available, respectively.

Charges with respect to the lump-sum benefit plan and the funded pension plans were ¥5,889 million (\$55,478 thousand) and ¥616 million (\$5,803 thousand) for the years ended March 31, 2000 and 1999, respectively.

9. Shareholders' equity

The Company is required to appropriate as legal reserve certain amount of retained earnings equal to at least 10% of cash dividends and bonuses to directors and corporate auditors in each period until the reserve equals 25% of common stock. This reserve is not available for dividends but may be used to reduce a deficit by resolution of the shareholders' meeting or may be capitalized by resolution of the Board of Directors. Legal reserve is included in retained earnings.

The maximum amount that the Company can distribute as dividends is calculated based on the unconsolidated financial statements of the Company and in accordance with the Commercial Code of Japan.

10. Certain lease transactions

Information on finance leases except those for which ownership of the leased assets is considered to be transferred to lessee are following:

(1) The following is information regarding lease transactions as March 31, 2000 and 1999:

	Millions of yen					
	2000			1999		
	Acquisition cost	Accumulated depreciation	Net book value	Acquisition cost	Accumulated depreciation	Net book value
Equipment	¥1,701	¥975	¥726	¥1,836	¥824	¥1,012
Total	¥1,701	¥975	¥726	¥1,836	¥824	¥1,012

	Thousands of U.S. dollars (Note 1)		
	2000		
	Acquisition cost	Accumulated depreciation	Net book value
Equipment	\$16,024	\$9,185	\$6,839
Total	\$16,024	\$9,185	\$6,839

Depreciation is calculated based on straight-line method over contracted lease period assuming no residual values.

(2) The amounts of outstanding future lease payments due at March 31, 2000 and 1999, and total lease expenses as lessee for the year ended March 31, 2000 and 1999 were as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)	
	2000	1999	2000	1999
Future lease payments				
Within one year	¥386	¥ 406	\$3,636	\$3,825
Over one year	352	620	3,316	5,841
Total	738	1,026	6,952	9,666
Total lease expenses	¥424	¥ 424	\$3,994	\$3,994

(3) Other information regarding certain lease transaction for the year ended March 31, 2000 and 1999 were as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)	
	2000	1999	2000	1999
Depreciation equivalent	¥409	¥409	\$3,853	\$3,853
Interest equivalent	13	20	122	188

11. Contingent liabilities

Contingent liabilities at March 31, 2000 and 1999 were as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)	
	2000	1999	2000	1999
For notes discounted with banks	¥ 52	¥356	\$ 490	\$3,354
For notes endorsed	-	83	-	782
For guarantees for loans of unconsolidated subsidiaries, employees and others from banks	178	321	1,677	3,024
	¥230	¥760	\$2,167	\$7,160

12. Segment information

The Company and its consolidated subsidiary are mainly engaged in the construction business and the sale and production of equipment.

Summaries of net assets, operating income and total assets by industry for the years ended March 31, 2000 and 1999 were as follows:

2000	Millions of yen				
	Construction	Equipment	Total	Elimination	Consolidated
Net sales:					
Outside customers	¥190,570	¥5,598	¥196,168	¥ —	¥196,168
Inside group	—	764	764	(764)	—
Total	190,570	6,362	196,932	(764)	196,168
Costs and expenses	186,672	5,774	192,446	(906)	191,540
Operating income	¥ 3,898	¥ 588	¥ 4,486	¥ 142	¥ 4,628
Assets and others:					
Assets	¥232,616	¥6,738	¥239,354	¥(1,078)	¥238,276
Depreciation	687	84	771	(1)	770
Capital Expenditures	207	51	258	—	258

1999	Millions of yen				
	Construction	Equipment	Total	Elimination	Consolidated
Net sales:					
Outside customers	¥225,832	¥5,166	¥230,998	¥ —	¥230,998
Inside group	—	957	957	(957)	—
Total	225,832	6,123	231,955	(957)	230,998
Costs and expenses	220,724	5,512	226,236	(1,047)	225,189
Operating income	¥ 5,108	¥ 611	¥ 5,719	¥ 90	¥ 5,809
Assets and others:					
Assets	¥226,455	¥6,285	¥232,740	¥ (826)	¥231,914
Depreciation	563	31	594	(1)	593
Capital Expenditures	581	16	597	(6)	591

2000	Thousands of U.S. dollars (Note 1)				
	Construction	Equipment	Total	Elimination	Consolidated
Net sales:					
Outside customers	\$1,795,290	\$52,736	\$1,848,026	\$ —	\$1,848,026
Inside group	—	7,198	7,198	(7,198)	—
Total	1,795,290	59,934	1,855,224	(7,198)	1,848,026
Costs and expenses	1,758,568	54,395	1,812,963	(8,536)	1,804,427
Operating income	\$ 36,722	\$ 5,539	\$ 42,261	\$ 1,338	\$ 43,599
Assets and others:					
Assets	\$2,191,389	\$63,476	\$2,254,865	\$(10,155)	\$2,244,710
Depreciation	6,472	791	7,263	(9)	7,254
Capital Expenditures	1,950	480	2,430	—	2,430

None of segment information by location nor overseas sales is shown from materiality view point.

13. Subsequent event

The following appropriations of retained earnings at March 31, 2000, were approved at the annual meeting of shareholders held on June 29, 2000:

	Millions of yen	Thousands of U.S. dollars (Note 1)
Year-end cash dividends ¥8.5 (\$0.07) per share	¥728	\$6,858
Bonuses to directors and corporate auditors	264	2,487

**To the Shareholders and the Board of Directors of
Takasago Thermal Engineering Co., Ltd.**

We have audited the accompanying consolidated balance sheets of Takasago Thermal Engineering Co., Ltd. and a subsidiary as of March 31, 2000 and 1999, and the related consolidated statements of income, shareholders' equity and cash flows for the years then ended, expressed in Japanese yen. Our audits were made in accordance with generally accepted auditing standards in Japan and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the consolidated financial statements referred to above present fairly the consolidated financial position of Takasago Thermal Engineering Co., Ltd. and a subsidiary as of March 31, 2000 and 1999, 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 applied on a consistent basis during the periods, except as noted in the following paragraph.

As explained in Note 2, in the year ended March 31, 2000, Takasago Thermal Engineering Co., Ltd. and a subsidiary prospectively adopted new Japanese accounting standards for consolidation, income taxes and research and development costs. Also, Takasago thermal Engineering Co., Ltd. and a subsidiary changed the method of accounting for employees' retirement benefits, effective April 1, 1999, as referred to in Note 2, with which we concur.

Also, in our opinion, the U.S. dollar amounts in the accompanying consolidated financial statements have been translated from Japanese yen on the basis set forth in Note 1.

Asahi & Co.

Tokyo, Japan
June 29, 2000

Statement on Accounting Principles and Auditing Standards

This statement is to remind users that accounting principles and auditing standards and their application in practice may vary among nations and therefore could affect, possibly materially, the reported financial position and results of operations. The accompanying financial statements are prepared based on accounting principles generally accepted in Japan, and the auditing standards and their application in practice are those generally accepted in Japan. Accordingly, the accompanying consolidated financial statements and the auditors' report presented above are for users familiar with Japanese accounting principles, auditing standards and their application in practice.

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Masaru Ishii



Taiji Fukuoka



Hanji Tsutsui



Tadahiro Toriyama

President

Masaru Ishii

Executive Vice President

Taiji Fukuoka

Senior Managing Directors

Hanji Tsutsui

Tadahiro Toriyama

Managing Directors

Tsuyoshi Furuno

Kinji Muraki

Keitaro Kaneda

Takashi Kikuchi

Eiichi Ishida

Makoto Matsushita

Tomoo Tsukagoshi

Kozo Iwai

Tadao Higuchi

Akio Tanaka

Saburo Sato

Directors

Kotaro Kawasaki

Yoshiharu Makino

Yasuhiko Okamoto

Takayuki Matsushita

Masamichi Kaya

Tasuku Nakajima

Takefusa Miyamoto

Ryoji Shoda

Yukiji Kinoshita

Corporate Auditors

Noboru Kitazawa

Osamu Ogawa

Keishi Umeki

Tatsuro Saruyama

(As of June 29, 2000)

Date of Establishment

November 16, 1923

Paid-in Capital

¥13,134,919,960

Number of Shareholders

6,224

Number of Employees

1,780

Outstanding Shares

85,765,768 shares

Stock Exchange Listings

Tokyo and Osaka stock exchanges,
First section

Transfer Agent and Registrar

The Chuo, Mitsui Trust and Banking Co., Ltd.*
1-7-1 Kyobashi, Chuo-ku,
Tokyo 104-8345, Japan

Annual Meeting of Shareholders

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

(As of March 31, 2000)

*(As of April 1, 2000)



Takasago Thermal Engineering Co., Ltd.

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