

FP CORPORATION and Subsidiaries

*Consolidated Financial Statements for the
Years Ended March 31, 2008 and 2007, and
Independent Auditors' Report*

INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
FP CORPORATION:

We have audited the accompanying consolidated balance sheets of FP CORPORATION (the "Company") and subsidiaries as of March 31, 2008 and 2007, 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 FP CORPORATION and subsidiaries as of March 31, 2008 and 2007, and the consolidated results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in Japan.

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

June 27, 2008

Consolidated Balance Sheets
FP CORPORATION and Subsidiaries
March 31, 2008 and 2007

ASSETS	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2008	2007	2008
CURRENT ASSETS:			
Cash and cash equivalents	¥ 8,225	¥ 8,523	\$ 82,094
Receivables:			
Trade notes	8,232	12,486	82,164
Trade accounts	15,513	16,322	154,836
Associated companies	492	539	4,911
Other	3,143	2,632	31,370
Allowance for doubtful accounts	(137)	(158)	(1,367)
Inventories (Note 5)	14,124	12,469	140,972
Prepaid expenses and other current assets (Note 13)	1,047	1,071	10,450
Total Current Assets	50,639	53,884	505,430
PROPERTY, PLANT AND EQUIPMENT (Note 6):			
Land	21,581	20,432	215,401
Buildings and structures	57,303	51,318	571,943
Machinery and equipment	17,447	15,268	174,139
Tools, furniture and fixtures	12,879	11,548	128,546
Construction in progress	133	691	1,327
Total	109,343	99,257	1,091,356
Accumulated depreciation	(51,672)	(48,036)	(515,740)
Net Property, Plant and Equipment	57,671	51,221	575,616
INVESTMENTS AND OTHER ASSETS:			
Investment securities (Note 4)	2,859	3,848	28,536
Investments in and advances to associated companies	276	228	2,755
Long-term loans	3,488	3,413	34,814
Goodwill	5	19	50
Deferred tax assets (Note 12)	877	397	8,753
Other assets	1,993	3,636	19,892
Allowance for doubtful accounts	(215)	(413)	(2,146)
Total Investments and Other Assets	9,283	11,128	92,654
TOTAL	¥ 117,593	¥ 116,233	\$ 1,173,700

See notes to consolidated financial statements.

FP CORPORATION and Subsidiaries
March 31, 2008 and 2007

LIABILITIES AND EQUITY	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2008	2007	2008
CURRENT LIABILITIES:			
Short-term bank loans (Note 7)	¥ 10,200	¥ 13,650	\$ 101,807
Current portion of long-term debt (Note 7)	8,102	7,213	80,866
Payables:			
Trade accounts	17,479	18,955	174,459
Associated companies	0	12	0
Other	4,174	5,925	41,661
Commercial paper	10,000		99,810
Accrued income taxes	801	2,309	7,995
Accrued expenses	2,013	1,891	20,092
Other current liabilities	86	171	858
Total Current Liabilities	52,855	50,126	527,548
LONG-TERM LIABILITIES:			
Long-term debt (Note 7)	11,451	12,550	114,293
Liability for employees' retirement benefits (Note 8)	1,256	1,199	12,536
Retirement allowances for directors and corporate auditors (Note 9)	677	666	6,757
Other long-term liabilities	330	826	3,294
Total Long-Term Liabilities	13,714	15,241	136,880
COMMITMENTS AND CONTINGENT LIABILITIES (Notes 13,14 and 15)			
EQUITY (Notes 10 and 16):			
Common stock,			
Authorized — 60,000,000 shares in 2008 and 2007			
Issued — 22,142,106 shares in 2008 and 2007	13,151	13,151	131,261
Capital surplus	15,488	15,488	154,586
Retained earnings	25,275	22,359	252,270
Net unrealized gain on available-for-sale securities	218	823	2,176
Treasury stock — at cost			
1,006,055 shares in 2008 and 328,631 shares in 2007	(3,165)	(1,004)	(31,590)
Total	50,967	50,817	508,703
Minority interests	57	49	569
Total Equity	51,024	50,866	509,272
TOTAL	¥ 117,593	¥ 116,233	\$ 1,173,700

See notes to consolidated financial statements.

Consolidated Statements of Income
FP CORPORATION and Subsidiaries
Years ended March 31, 2008 and 2007

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2008	2007	2008
NET SALES	¥ 125,514	¥ 124,233	\$ 1,252,760
COST OF SALES (Note 11)	93,954	91,061	937,759
Gross Profit	31,560	33,172	315,001
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES (Note 11)	25,573	25,544	255,245
Operating Income	5,987	7,628	59,756
OTHER INCOME (EXPENSES):			
Interest and dividend income	187	169	1,866
Interest expense	(361)	(286)	(3,603)
Loss on valuation of inventories	(39)	(491)	(389)
Other — net	808	697	8,065
Other income — net	595	89	5,939
INCOME BEFORE INCOME TAXES AND MINORITY INTERESTS	6,582	7,717	65,695
INCOME TAXES (Note 12):			
Current	2,435	3,419	24,304
Deferred	(19)	(227)	(190)
Total	2,416	3,192	24,114
MINORITY INTERESTS IN NET INCOME	9	10	90
NET INCOME	¥ 4,157	¥ 4,515	\$ 41,491

	Yen		U.S. Dollars (Note 1)
PER SHARE OF COMMON STOCK (Note 2.p):			
Basic net income	¥ 192.18	¥ 206.27	\$ 1.92
Cash dividends	58.00	57.00	0.58
See notes to consolidated financial statements.			

Consolidated Statements of Changes in Equity
FP CORPORATION and Subsidiaries
Years ended March 31, 2008 and 2007

	Shares / Millions of Yen						
	Issued number of shares of common stock	Common stock	Capital surplus	Retained earnings	Net unrealized gain (loss) on available-for-sale securities	Treasury stock	Total
BALANCE AT APRIL 1, 2006	22,142,106	¥13,151	¥15,488	¥19,041	¥1,016	¥(312)	¥48,384
Reclassified balance as of March 31, 2006 (Note 2.q)							54
Cash dividends, ¥52.00 per share				(1,139)			(1,139)
Bonuses to directors and corporate auditors				(58)			(58)
Net income				4,515			4,515
Increase in treasury stock					(692)		(692)
Net change in the year					(193)		(193)
BALANCE AT MARCH 31, 2007	22,142,106	¥13,151	¥15,488	¥22,359	¥823	¥(1,004)	¥50,817
Cash dividends, ¥57.00 per share				(1,241)			(1,241)
Net income				4,157			4,157
Increase in treasury stock				(0)		(2,162)	(2,162)
Disposal of treasury stock						1	1
Net change in the year					(605)		(605)
BALANCE AT MARCH 31, 2008	22,142,106	¥13,151	¥15,488	¥25,275	¥218	¥(3,165)	¥50,967
							¥51,024

Thousands of U.S. Dollars (Note 1)

	Thousands of U.S. Dollars (Note 1)						
	Common stock	Capital surplus	Retained earnings	Net unrealized gain (loss) on available-for-sale securities	Treasury stock	Total	Minority interests
BALANCE AT MARCH 31, 2007	\$ 131,261	\$ 154,586	\$ 223,166	\$ 8,214	\$ (10,021)	\$ 507,206	\$ 489
Cash dividends, \$0.57 per share			(12,386)			(12,386)	
Net income			41,491			41,491	
Increase in treasury stock			(1)		(21,579)	(21,579)	
Disposal of treasury stock					10	9	
Net change in the year				(6,038)		(6,038)	80
BALANCE AT MARCH 31, 2008	\$ 131,261	\$ 154,586	\$ 252,270	\$ 2,176	\$ (31,590)	\$ 508,703	\$ 569
							\$ 509,272

See notes to consolidated financial statements.

Consolidated Statements of Cash Flows
FP CORPORATION and Subsidiaries
Years ended March 31, 2008 and 2007

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2008	2007	2008
OPERATING ACTIVITIES:			
Income before income taxes and minority interests	¥ 6,582	¥ 7,717	\$ 65,695
Adjustments for:			
Income taxes - paid	(3,924)	(2,916)	(39,166)
Depreciation and amortization	4,742	4,196	47,330
Provision for allowance for doubtful accounts	(218)	(22)	(2,176)
Loss on disposal of property, plant and equipment	32	339	319
Provision for retirement benefits	57	80	569
Retirement allowances for directors and corporate auditors	12	372	120
Bonuses to directors and corporate auditors		(58)	
Changes in operating assets and liabilities, net of effects:			
Increase (decrease) in trade receivables	4,578	(1,178)	45,693
Increase in inventories	(1,656)	(208)	(16,529)
Increase (decrease) in other accounts receivables	1,053	(383)	10,510
Decrease (increase) in trade payables	(1,487)	310	(14,842)
Other — net	(666)	(165)	(6,646)
Total adjustments	2,523	697	25,182
Net cash provided by operating activities	9,105	8,414	90,877
INVESTING ACTIVITIES:			
Purchases of property, plant and equipment	(11,893)	(6,956)	(118,704)
Proceeds from sales of investment securities	33	19	329
Purchases of investment securities	(48)	(80)	(479)
Increase in short-term loans — net	41	510	409
Payments for long-term loans	(764)	(780)	(7,626)
Proceeds from collection of long-term loans	963	2,161	9,612
Increase in other assets	(340)	(367)	(3,393)
Net cash used in investing activities	(12,008)	(5,493)	(119,852)
FINANCING ACTIVITIES:			
Decrease (increase) in short-term bank loans — net	(3,450)	4,600	(34,434)
Commercial paper	10,000		99,810
Proceeds from long-term debt	8,150	9,600	81,345
Repayments of long-term debt	(8,360)	(14,769)	(83,441)
Purchase of treasury stock	(2,162)	(692)	(21,579)
Dividends paid	(1,240)	(1,139)	(12,376)
Repayments of obligations under reorganization proceeding of subsidiaries	(333)	(405)	(3,324)
Other — net		(15)	
Net cash provided by financing activities	2,605	(2,820)	26,001
FOREIGN CURRENCY TRANSLATION			
ADJUSTMENTS ON CASH AND CASH EQUIVALENTS		0	
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(298)	101	(2,974)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	8,523	8,422	85,068
CASH AND CASH EQUIVALENTS, END OF YEAR	¥ 8,225	¥ 8,523	\$ 82,094

See notes to consolidated financial statements.

Notes to Consolidated Financial Statements

FP CORPORATION and Subsidiaries

Years ended March 31, 2008 and 2007

1. BASIS OF PRESENTING CONSOLIDATED FINANCIAL STATEMENTS

The accompanying consolidated financial statements of FP Corporation (the "Company") have been prepared in accordance with the provisions set forth in the Japanese Financial Instruments and Exchange Law (formerly, the Japanese Securities and Exchange Law) and its related accounting regulations, and in conformity with accounting principles generally accepted in Japan, which are different in certain respects as to application and disclosure requirements of International Financial Reporting Standards.

In preparing these consolidated financial statements, certain reclassifications and rearrangements have been made to the consolidated financial statements issued domestically in order to present them in a form which is more familiar to readers outside Japan. In addition, certain reclassifications have been made in the 2007 consolidated financial statements to conform to the classifications used in 2008.

The consolidated financial statements are stated in Japanese yen, the currency of the country in which 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 ¥100.19 to \$1, the rate of exchange at March 31, 2008. Such translations should not be construed as representations that the Japanese yen amounts could be converted into U.S. dollars at that or any other rate.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Principles of consolidation

The consolidated financial statements as of March 31, 2008 and 2007 include the accounts of the Company and all subsidiaries, 29 in 2008 and 2007 (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.

Investments in the associated companies are stated at cost. If the equity method of accounting had been applied to the investments in those companies, the effect on the accompanying consolidated financial statements would not be material.

The significant excess of the Company's investments in consolidated subsidiaries over its equity in the net assets at the respective dates of acquisition is being amortized over five years. The insignificant excess of cost over net assets of subsidiaries acquired is charged to income when incurred.

Negative goodwill is reported in the balance sheet as other long-term liabilities and is amortized using the straight-line method over five years.

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.

(b) 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 mutual funds investing in bonds that represent short-term investments, all of which mature or become due within three months of the date of acquisition.

(c) Investment Securities

Investment securities are classified as available-for-sale securities and are reported at fair value, with unrealized gains and losses, net of applicable taxes, reported in a separate component of equity. The cost of securities sold is determined based on the moving-average method. Non-marketable available-for-sale securities are stated at cost determined by the moving-average method. For other than temporary declines in fair value, marketable and non-marketable available-for-sale securities are reduced to net realizable value by a charge to income.

(d) Inventories

Merchandise, finished products, semi-finished products, raw materials and work in process are stated at cost determined by the monthly average-method. Real estate for sale and paintings and antiques are stated at cost determined by the specific identification method, and supplies are stated at cost determined by the last purchased cost method.

(e) Property, Plant and Equipment

Property, plant and equipment are stated at cost.

Depreciation is computed substantially by the declining-balance method over the estimated useful lives of the assets.

Additionally, equipment of certain consolidated subsidiaries is depreciated by the straight-line method.

The range of useful lives are mainly as follows:

Buildings and structures..... 15 to 35 years

Machinery and equipment..... 4 to 8 years

(f) Long-Lived assets

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

(g) Other Assets

Intangible assets are carried at cost less accumulated amortization, which is calculated by the straight-line method principally over five years.

(h) 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 receivables outstanding.

(i) Liability for Employees' Retirement Benefits

The Company and certain consolidated subsidiaries have non-contributory funded defined benefit pension plans and unfunded retirement benefit plans for employees which cover approximately 50%, respectively, of their benefits. Most of the other consolidated subsidiaries have defined contribution annuity plans.

The employees' retirement benefits account for the liability for retirement benefits based on projected benefit obligation and plan assets at the balance sheet date in conformity with the accounting standard for employees' retirement benefits.

(j) Retirement Allowances for Directors and Corporate Auditors

Retirement allowance for directors and corporate auditors of the Company and certain subsidiaries are also provided under the internal guidelines.

(k) Research and Development Costs

Research and development costs are charged to income as incurred.

(l) Leases

All leases are accounted for as operating leases. Under Japanese accounting standards for leases, finance leases that deem to transfer ownership of the leased property to the lessee are to be capitalized, while other finance leases are 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.

(m) Bonuses to directors and corporate auditors

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

(n) 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.

(o) Appropriations of Retained Earnings

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

(p) 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. The average number of common shares used in the computation was 21,631,051 shares for the year ended March 31, 2008 and 21,889,331 shares for the year ended March 31, 2007, respectively.

Diluted net income per share was not presented because there was no dilution for the years ended March 31, 2008 and 2007.

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

(q) New Accounting Pronouncements

Measurement of Inventories

Under generally accepted accounting principles in Japan ("Japanese GAAP"), inventories are currently measured either by the cost method, or at the lower of cost or market. On July 5, 2006, the ASBJ issued ASBJ Statement No. 9, "Accounting Standard for Measurement of Inventories", which is effective for fiscal years beginning on or after April 1, 2008 with early adoption permitted. This standard requires that inventories held for sale in the ordinary course of business be measured at the lower of cost or net selling value, which is defined as the selling price less additional estimated manufacturing costs and estimated direct selling expenses. The replacement cost may be used in place of the net selling value, if appropriate. The standard also requires that inventories held for trading purposes be measured at the market price.

Lease Accounting

On March 30, 2007, the ASBJ issued ASBJ Statement No. 13, "Accounting Standard for Lease Transactions", which revised the existing accounting standard for lease transactions issued on June 17, 1993. The revised accounting standard for lease transaction is effective for fiscal years beginning on or after April 1, 2008.

Lessee

Under the existing accounting standard, finance leases that deem to transfer ownership of the leased property to the lessee are to be capitalized, however, other finance leases are permitted to be accounted for as operating lease transactions if certain "as if capitalized" information is disclosed in the note to the lessee's financial statements. The revised accounting standard requires that all finance lease transactions shall be capitalized recognizing lease assets and lease obligations in the balance sheet.

Lessor

Under the existing accounting standard, finance leases that deem to transfer ownership of the leased property to the lessee are to be capitalized, however, other financial leases are permitted to be accounted for as operating lease transactions if certain "as if capitalized" information is disclosed in the note to the lessor's financial statements. The revised accounting standard requires that all finance leases that deem to transfer ownership of the leased property to the lessee shall be recognized as lease receivables, and all finance leases that deem not to transfer ownership of the leased property to the lessee shall be recognized as investments in lease.

3. INVESTMENT SECURITIES

Investment securities as of March 31, 2008 and 2007 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars	
	2008	2007	2008	
Non-current:				
Marketable equity securities	¥ 1,948	¥ 2,935	\$ 19,443	
Non-marketable equity securities	865	849	8,634	
Trust fund investment and other	46	64	459	
Total	¥ 2,859	¥ 3,848	\$ 28,536	

The carrying amounts and aggregate fair values of investment securities at March 31, 2008 and 2007 were as follows:

	Millions of Yen			
	Cost	Unrealized Gains	Unrealized Losses	Fair Value
March 31, 2008				
Securities classified as:				
Available-for-sale:				
Equity securities	¥ 1,542	¥ 522	¥ (116)	¥ 1,948
Trust fund investments	61		(15)	46

	Millions of Yen			
	Cost	Unrealized Gains	Unrealized Losses	Fair Value
March 31, 2007				
Securities classified as:				
Available-for-sale:				
Equity securities	¥ 1,533	¥ 1,408	¥ (6)	¥ 2,935
Trust fund investments	61	3		64

	Thousands of U.S. Dollars			
	Cost	Unrealized Gains	Unrealized Losses	Fair Value
March 31, 2008				
Securities classified as:				
Available-for-sale:				
Equity securities	\$ 15,391	\$ 5,210	\$ (1,158)	\$ 19,443
Trust fund investments	609		(150)	459

Available-for-sale securities whose fair value is not readily determinable as of March 31, 2008 and 2007 were as follows:

	Carrying Amount		
	Millions of Yen		Thousands of U.S. Dollars
	2008	2007	2008
Available-for-sale:			
Equity securities	¥ 865	¥ 849	\$ 8,634
Total	¥ 865	¥ 849	\$ 8,634

Proceeds from sales of available-for-sale securities for the years ended March 31, 2008 and 2007 were ¥ 33 million (\$ 329 thousand) and ¥ 19 million, respectively. Gross realized gains on these sales, computed on the moving average cost basis, were ¥ 17 million (\$ 170 thousand) and ¥ 5 million, for the year ended March 31, 2008 and 2007, respectively. (No losses were realized for the Years ended March 31, 2008 and 2007)

4. INVENTORIES

Inventories at March 31, 2008 and 2007 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2008	2007	2008
Merchandise	¥ 657	¥ 543	\$ 6,558
Real estate for sale	52	52	519
Finished products	10,074	9,093	100,549
Semi-finished products and work in process	438	428	4,372
Raw materials	1,560	1,044	15,570
Supplies	420	386	4,192
Paintings and antiques	923	923	9,212
Total	¥ 14,124	¥ 12,469	\$ 140,972

5. PROPERTY, PLANT AND EQUIPMENT

Depreciation expense for the years ended March 31, 2008 and 2007 was ¥4,742 million (\$47,330 thousand) and ¥4,196 million, respectively.

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

Short-term bank loans at March 31, 2008 and 2007 bore interest at annual rates of 0.90 % to 1.02 % and 0.55 % to 0.91 %, respectively.

Long-term debt at March 31, 2008 and 2007 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2008	2007	2008
Unsecured loans from banks and other financial institutions due serially to 2013 with interest rates ranging from 0.60 % to 1.59 % (2008) and from 0.39% to 1.59% (2007)	¥ 19,553	¥ 19,763	\$ 195,159
Total	19,553	19,763	195,159
Less-current portion	8,102	7,213	80,866
Long-term debt, less current portion	¥ 11,451	¥ 12,550	\$ 114,293

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

Year ending March 31	Millions of Yen	Thousands of U.S. Dollars
2009	¥ 8,102	\$ 80,866
2010	7,430	74,159
2011	3,827	38,197
2012	178	1,777
2013	16	160
Total	¥ 19,553	\$ 195,159

The Company and certain subsidiaries entered into credit agreements with several Japanese banks under which the banks committed a maximum of ¥ 37,550 million (\$ 374,788 thousand) and ¥ 34,200 million to the Company and certain subsidiaries in the form of cash borrowings at March 31, 2008 and 2007 respectively. The unused lines of credit under these agreement amounted ¥ 27,350 million (\$ 272,981 thousand) and ¥ 21,050 million at March 31, 2008 and 2007, respectively.

7. LIABILITY FOR EMPLOYEES' RETIREMENT BENEFITS

The Company and certain subsidiaries have severance payment plans for employees.

Under most circumstances, employees terminating their employment are entitled to retirement benefits determined based on the rate of pay at the time of termination, years of service and certain other factors. Such retirement benefits are made in the form of a lump-sum severance payment from the Company or from certain subsidiaries and annuity payments from a trustee. Employees are entitled to larger payments if the termination is involuntary, or by voluntary retirement at certain specific ages prior to the mandatory retirement age.

Most of the other subsidiaries entered into the Smaller Enterprise Retirement Allowance Mutual Aid Corporation which is a defined contribution pension plan.

The liability for employees' retirement benefits as of March 31, 2008 and 2007 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars	
	2008	2007	2008	
Projected benefit obligation	¥ 2,367	¥ 2,222	\$ 23,625	
Fair value of plan assets	(1,015)	(966)	(10,131)	
Unrecognized actuarial loss	(96)	(57)	(958)	
Net liability	¥ 1,256	¥ 1,199	\$ 12,536	

The components of net periodic benefit costs for the years ended March 2008 and 2007 were as follows:

	Millions of Yen		Thousands of U.S. Dollars	
	2008	2007	2008	
Service cost	¥ 308	¥ 274	\$ 3,074	
Interest cost	33	29	330	
Expected return on plan assets	(10)	(9)	(100)	
Amortization of actuarial loss	11	35	110	
Net periodic benefit costs	¥ 342	¥ 329	\$ 3,414	

Assumptions used for the years ended March 31, 2008 and 2007 were set forth as follows:

	2008	2007
Discount rate	2.0 %	2.0 %
Expected rate of return on plan assets	1.5 %	1.5 %
Recognition period of actuarial gain / loss	5 years	5 years

8. RETIREMENT ALLOWANCES FOR DIRECTORS AND CORPORATE AUDITORS

Retirement allowances for directors and corporate auditors are paid subject to approval of the shareholders in accordance with the Japanese Commercial Code (the "Code").

The Company and certain subsidiaries recorded a liability for their unfunded retirement allowances plan covering all of its directors and corporate auditors. The annual provisions for retirement allowances for directors and corporate auditors for the years ended March 31, 2008 and 2007 were ¥ 52 million (\$ 519 thousand) and ¥ 70 million, respectively.

9. EQUITY

On and after May 1, 2006, Japanese companies are subject to a new corporate law of Japan (the "Corporate Law"), which reformed and replaced the Code with various revisions that are, for the most part, applicable to events or transactions which occur on or after May 1, 2006 and for the fiscal years ending on or after May 1, 2006. The significant changes in the Corporate Law that affect financial and accounting matters are summarized below:

(a) Dividends

Under the Corporate Law, 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 the Board of Directors, (2) having independent auditors, (3) having the Board of Corporate Auditors, and (4) the term of service of the directors is prescribed as one year rather than two years of normal term by its articles of incorporation, the Board of Directors may declare dividends (except for dividends in kind) at any time during the fiscal year if the company has prescribed so in its articles of incorporation. The Company meets all the above criteria.

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

Semi-annual 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 Law also 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 Law requires that an amount equal to 10% of dividends must be appropriated as a legal reserve (a component of retained earnings) or as additional paid-in capital (a component of capital surplus) depending on the equity account charged upon the payment of such dividends until the total of aggregate amount of legal reserve and additional paid-in capital equals 25% of the common stock. Under the Corporate Law, the total amount of additional paid-in capital and legal reserve may be reversed without limitation. The Corporate Law 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 Law 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 Law, stock acquisition rights, which were previously presented as a liability, are now presented as a separate component of equity.

The Corporate Law 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.

10. RESEARCH AND DEVELOPMENT COSTS

Research and development costs charged to operating expenses were ¥914million (\$9,123 thousand) and ¥895 million for the years ended March 31, 2008 and 2007, respectively.

11. INCOME TAXES

The Group is subject to Japanese national and local income taxes which, in the aggregate, resulted in a normal effective statutory tax rate of approximately 40.4% for the years ended March 31, 2008 and 2007.

The tax effects of significant temporary differences and tax loss carryforwards which resulted in deferred tax assets and liabilities at March 31, 2008 and 2007 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2008	2007	2008
Deferred Tax Assets:			
Tax loss carry forwards	¥ 98	¥ 23	\$ 978
Accrued enterprise tax	71	181	709
Accrued expenses	565	532	5,639
Inventories-intercompany profits	33	35	329
Allowance for doubtful accounts	115	179	1,148
Accrued pension and severance costs	491	467	4,901
Retirement allowances for directors and corporate auditors	273	268	2,725
Allowance for loss on investments	116	114	1,158
Other	232	289	2,315

Less valuation allowance	(189)	(353)	(1,886)
Total	1,805	1,735	18,016
Deferred Tax Liabilities:			
Allowance for doubtful accounts-intercompany balances	(7)	(6)	(70)
Unrealized gain on available-for-sale securities	(210)	(569)	(2,096)
Other	(3)	(3)	(30)
Total	(220)	(578)	(2,196)
Net deferred tax assets	¥ 1,585	¥ 1,157	\$ 15,820

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, 2008 was as follows:

	2008
Normal effective statutory tax rate	40.4%
Tax effects on permanent differences	0.7
Per capita levy of inhabitants taxes	1.3
Tax loss carryforwards of subsidiaries	(4.2)
Other – net	(1.5)
Actual effective tax rate	36.7%

A reconciliation schedule for the year ended March 31, 2007 was omitted, because the difference between the normal effective statutory tax rate and the actual effective tax rate after applying tax effect accounting was less than 5% of the normal effective statutory tax rate. This treatment is permitted by the Japanese accounting regulations.

At March 31, 2008, certain subsidiaries have tax loss carryforwards aggregating approximately ¥98 million (\$978 thousand) which are available to be offset against taxable income of such subsidiaries in future years. These tax loss carryforwards, if not utilized, will expire as follows:

Year Ending March 31	Millions of Yen	Thousands of U.S. Dollars
2009	¥	\$
2010		
2011		
2012	1	10
2013	5	50
2014	4	40
2015	88	878
Total	¥ 98	\$ 978

12. LEASES

(a) As lessee

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

Total rental expense for the years ended March 31, 2008 and 2007 were ¥ 5,074 million (\$ 50,644 thousand) and ¥ 4,778 million, respectively, including ¥ 3,832 million (\$ 38,247 thousand) and ¥ 3,453 million of lease payments under finance leases.

Pro forma information of leased property such as acquisition cost, accumulated depreciation, obligation under finance leases, depreciation expense and interest expense of finance leases that do not transfer ownership of the leased property to the lessee on an “as if capitalized” basis for the years ended March 31, 2008 and 2007 was as follows:

	Millions of Yen		
	Machinery and equipment	Tools, furniture and fixtures	Total
2008			
Acquisition cost	¥ 17,147	¥ 5,260	¥ 22,407
Accumulated depreciation	8,210	2,728	10,938
Net leased property	¥ 8,937	¥ 2,532	¥ 11,469

2007					
Acquisition cost	¥	15,485	¥	4,451	¥ 19,936
Accumulated depreciation		7,981		2,016	9,997
Net leased property	¥	7,504	¥	2,435	¥ 9,939

	Thousands of U.S. Dollars		
	Machinery and equipment	Tools, furniture and fixtures	Total
2008			
Acquisition cost	\$ 171,145	\$ 52,500	\$ 223,645
Accumulated depreciation	81,944	27,228	109,172
Net leased property	\$ 89,201	\$ 25,272	\$ 114,473

Obligations under finance leases:

	Millions of Yen		Thousands of U.S. Dollars
	2008	2007	2008
Due with one year	¥ 3,303	¥ 3,067	\$ 32,967
Due after one year	8,369	7,072	83,532
Total	¥ 11,672	¥ 10,139	\$ 116,499

Depreciation expense and interest expense under finance leases:

	Millions of Yen		Thousands of U.S. Dollars
	2008	2007	2008
Depreciation expense	¥ 3,627	¥ 3,258	\$ 36,201
Interest expense	205	167	2,046
Total	¥ 3,832	¥ 3,425	\$ 38,247

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

(b) As lessor

The Group subleases certain machinery, computer equipment, vehicle and other assets.

Total lease payments under finance leases for the years ended March 31, 2008 and 2007 were ¥183 million (\$1,827 thousand) and ¥173 million, respectively.

Pro forma information of leased property such as acquisition cost, accumulated depreciation, receivables on finance leases, depreciation expense, and interest income of finance leases that do not transfer ownership of the leased property to the lessee on an "as if capitalized" basis for the years ended March 31, 2008 and 2007 was as follows:

	Millions of Yen		
	Machinery and equipment	Tools, furniture and fixtures	Total
2008			
Acquisition cost	¥ 903	¥ 60	¥ 963
Accumulated depreciation	582	36	618
Net leased property	¥ 321	¥ 24	¥ 345
2007			
Acquisition cost	¥ 876	¥ 56	¥ 932
Accumulated depreciation	464	25	489
Net leased property	¥ 412	¥ 31	¥ 443

2008	Thousands of U.S. Dollars		
	Machinery and equipment	Tools, furniture and fixtures	Total
Acquisition cost	\$ 9,013	\$ 599	\$ 9,612
Accumulated depreciation	5,809	359	6,168
Net leased property	\$ 3,204	\$ 240	\$ 3,444

Receivables on finance leases:

	Millions of Yen		Thousands of U.S. Dollars
	2008	2007	2008
Due within one year	¥ 191	¥ 182	\$ 1,906
Due after one year	177	285	1,767
Total	¥ 368	¥ 467	\$ 3,673

Depreciation expense and interest expense under finance leases:

	Millions of Yen		Thousands of U.S. Dollars
	2008	2007	2008
Depreciation expense	¥ 157	¥ 153	\$ 1,567
Interest expense	25	26	250
Total	¥ 182	¥ 179	\$ 1,817

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

13. DERIVATIVES

The Group enters into foreign currency forward contracts to hedge foreign exchange risk associated with certain assets and liabilities denominated in foreign currencies. The Group does not hold or issue derivatives for trading purposes.

All derivative transactions are entered into to hedge foreign currency exposures incorporated within its business. Accordingly, market risk in these derivatives is basically offset by opposite movements in the value of hedged assets or liabilities.

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

Derivative transactions entered into by the Group have been made in accordance with internal policies which regulate the authorization and credit limit amount.

The Group had the following derivatives contracts outstanding at March 31, 2008 and 2007:

Foreign currency forward contracts: Selling U.S. Dollars

	Millions of Yen		Thousands of U.S. Dollars
	2008	2007	2008
Contract Amount	¥ 25	¥ 17	\$ 250
Fair Value	25	17	250
Unrealized Gain	(0)	(0)	(0)

Foreign currency forward contracts: Buying U.S. Dollars

	Millions of Yen		Thousands of U.S. Dollars
	2008		2008
Contract Amount	¥ 25		\$ 250
Fair Value	23		230
Unrealized Gain	(2)		(20)

The contract amounts of derivatives in the above table do not represent the amounts exchanged by the parties and do not measure the Group's exposure to credit or market risk.
The fair value of derivatives in the above table was determined from the amounts which the banks offered.

14. CONTINGENT LIABILITIES

At March 31, 2008, the Group had the following contingent liability.

	Millions of Yen	Thousands of U.S. Dollars
Repurchase of notes receivable	¥ 273	\$ 2,725

15. SUBSEQUENT EVENTS

Appropriations of Retained Earnings

The following appropriation of retained earnings at March 31, 2008 was approved at the board of directors held on May 27, 2008:

	Millions of Yen	Thousands of U.S. Dollars
Year-end cash dividends, ¥30.00 (\$0.30) per share	¥ 634	\$ 6,328

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