

FP CORPORATION and Subsidiaries

*Consolidated Financial Statements for the
Year Ended March 31, 2012, and
Independent Auditor's Report*

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of FP CORPORATION:

We have audited the accompanying consolidated balance sheet of FP CORPORATION (the "Company") and subsidiaries as of March 31, 2012, and the related consolidated statements of income, comprehensive income, changes in equity, and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information, all expressed in Japanese yen.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in conformity with accounting principles generally accepted in Japan, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatements, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in conformity with auditing standards generally accepted in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of the Company and subsidiaries as of March 31, 2012, and the consolidated results of their operations and their cash flows for the year then ended in conformity with accounting principles generally accepted in Japan.

Convenience Translation

Our audit 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.



June 28, 2012

Consolidated Balance Sheet
FP CORPORATION and Subsidiaries
March 31, 2012

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
ASSETS	2012	2011	2012
CURRENT ASSETS:			
Cash and cash equivalents (Note 16)	¥ 13,910	¥ 13,273	\$ 169,236
Receivables (Note 16):			
Trade notes	14,402	10,992	175,234
Trade accounts	22,483	20,140	273,544
Associated companies	444	410	5,397
Other	2,341	2,752	28,484
Lease investment assets (Notes 14 and 16)	19	31	229
Allowance for doubtful accounts	(69)	(48)	(834)
Inventories (Note 4)	16,979	14,706	206,577
Prepaid expenses and other current assets	1,801	1,756	21,928
Total current assets	72,310	64,012	879,795
PROPERTY, PLANT AND EQUIPMENT (Notes 5 and 6):			
Land	26,767	26,384	325,674
Buildings and structures	72,708	69,843	884,631
Machinery and equipment	28,870	26,617	351,263
Tools, furniture and fixtures	18,479	16,119	224,830
Lease assets (Note 14)	15,928	16,356	193,798
Construction in progress	3,789	1,514	46,102
Total	166,541	156,833	2,026,298
Accumulated depreciation	(80,743)	(73,589)	(982,399)
Net property, plant and equipment	85,798	83,244	1,043,899
INVESTMENTS AND OTHER ASSETS:			
Investment securities (Notes 3 and 16)	2,934	2,873	35,698
Investments in and advances to associated companies	68	68	827
Long-term loans	86	140	1,048
Goodwill	1,672	2,192	20,343
Software	804	833	9,779
Deferred tax assets (Note 13)	1,020	1,060	12,413
Other assets	1,370	1,418	16,666
Allowance for doubtful accounts	(97)	(101)	(1,185)
Total investments and other assets	7,857	8,483	95,589
TOTAL	¥ 165,965	¥ 155,739	\$ 2,019,283

(Continued)

Consolidated Balance Sheet

FP CORPORATION and Subsidiaries

March 31, 2012

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2012	2011	2012
LIABILITIES AND EQUITY			
CURRENT LIABILITIES:			
Short-term bank loans (Notes 7 and 16)	¥ 5,500	¥ 6,600	\$ 66,918
Current portion of long-term debt (Notes 7 and 16)	11,205	12,650	136,332
Payables (Note 16):			
Trade notes		311	
Trade accounts	21,560	18,589	262,324
Associated companies	5	5	67
Other	7,153	4,485	87,026
Commercial paper (Note 16)	15,000	15,000	182,504
Lease obligations (Notes 14 and 16)	2,197	2,560	26,727
Accrued income taxes (Note 16)	4,032	2,466	49,060
Accrued expenses	3,667	3,868	44,621
Other current liabilities	232	151	2,816
Total current liabilities	70,551	66,685	858,395
LONG-TERM LIABILITIES:			
Long-term debt (Notes 7 and 16)	15,603	14,136	189,845
Lease obligations (Notes 14 and 16)	6,403	7,410	77,909
Liability for employees' retirement benefits (Note 8)	1,972	1,838	23,993
Retirement allowances for directors and corporate auditors (Note 9)	1,099	1,048	13,367
Other long-term liabilities (Note 13)	134	181	1,625
Total long-term liabilities	25,211	24,613	306,739
COMMITMENTS AND CONTINGENT LIABILITIES (Notes 7 and 14)			
EQUITY (Note 10):			
Common stock—authorized, 60,000,000 shares; issued, 22,142,106 shares in 2012 and 2011	13,151	13,151	160,003
Capital surplus	15,843	15,843	192,766
Retained earnings	45,785	40,092	557,060
Treasury stock—at cost, 1,444,024 shares in 2012 and 1,443,850 shares in 2011	(4,938)	(4,937)	(60,083)
Accumulated other comprehensive income:			
Unrealized gain on available-for-sale securities	330	256	4,019
Total	70,171	64,405	853,765
Minority interests	32	36	384
Total equity	70,203	64,441	854,149
TOTAL	¥ 165,965	¥ 155,739	\$ 2,019,283

See notes to consolidated financial statements.
(Concluded)

Consolidated Statement of Income
FP CORPORATION and Subsidiaries
Year Ended March 31, 2012

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2012	2011	2012
NET SALES	¥ 155,682	¥ 140,721	\$ 1,894,167
COST OF SALES (Note 11)	108,688	97,993	1,322,394
Gross profit	46,994	42,728	571,773
SELLING, GENERAL, AND ADMINISTRATIVE EXPENSES (Note 11)	32,772	29,669	398,737
Operating income	14,222	13,059	173,036
OTHER INCOME (EXPENSES):			
Interest and dividend income	76	94	924
Insurance income		531	
Interest expense	(411)	(499)	(5,002)
Subsidy	740	561	9,003
Losses from a natural disaster (Note 12)	(242)	(696)	(2,943)
Other—net	185	400	2,246
Other income—net	348	391	4,228
INCOME BEFORE INCOME TAXES AND MINORITY INTERESTS	14,570	13,450	177,264
INCOME TAXES (Note 13):			
Current	6,491	5,107	78,972
Deferred	(18)	381	(214)
Total income taxes	6,473	5,488	78,758
NET INCOME BEFORE MINORITY INTERESTS	8,097	7,962	98,506
MINORITY INTERESTS IN NET INCOME	3	3	31
NET INCOME	¥ 8,094	¥ 7,959	\$ 98,475
	Yen		U.S. Dollars (Note 1)
PER SHARE OF COMMON STOCK (Note 2.q):			
Basic net income	¥ 391.03	¥ 380.90	\$ 4.76
Cash dividends applicable to the year	118.00	116.00	1.44

See notes to consolidated financial statements.

Consolidated Statement of Comprehensive Income

FP CORPORATION and Subsidiaries

Year Ended March 31, 2012

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2012	2011	2012
NET INCOME BEFORE MINORITY INTERESTS	¥ 8,097	¥ 7,962	\$ 98,506
OTHER COMPREHENSIVE INCOME (LOSS) (Note 17):			
Unrealized gain (loss) on available-for-sale securities	74	(310)	903
Total other comprehensive income (loss)	74	(310)	903
COMPREHENSIVE INCOME (Note 17)	¥ 8,171	¥ 7,652	\$ 99,409
TOTAL COMPREHENSIVE INCOME ATTRIBUTABLE TO (Note 17):			
Owners of the parent	¥ 8,168	¥ 7,649	\$ 99,378
Minority interests	3	3	31

See notes to consolidated financial statements.

Consolidated Statement of Changes in Equity
FP CORPORATION and Subsidiaries
Year Ended March 31, 2012

Shares/Millions of Yen									
	Issued Number of Shares of Common Stock	Common Stock	Capital Surplus	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Income Unrealized Gain on Available-for-Sale Securities	Total	Minority Interests	Total Equity
BALANCE AT APRIL 1, 2010	22,142,106	¥13,151	¥15,497	¥ 34,427	¥(3,905)	¥566	¥59,736	¥72	¥59,808
Net income				7,959			7,959		7,959
Cash dividends, ¥110.00 per share				(2,294)			(2,294)		(2,294)
Purchase of treasury stock					(1,862)		(1,862)		(1,862)
Disposal of treasury stock			346		830		1,176		1,176
Net change in the year						(310)	(310)	(36)	(346)
BALANCE AT MARCH 31, 2011	22,142,106	13,151	15,843	40,092	(4,937)	256	64,405	36	64,441
Net income				8,093			8,093		8,093
Cash dividends, ¥116.00 per share				(2,400)			(2,400)		(2,400)
Purchase of treasury stock					(1)		(1)		(1)
Disposal of treasury stock			0		0		0		0
Net change in the year						74	74	(4)	70
BALANCE AT MARCH 31, 2012	22,142,106	¥13,151	¥15,843	¥45,785	¥(4,938)	¥330	¥70,171	¥32	¥70,203

Thousands of U.S. Dollars (Note 1)								
					Accumulated Other Comprehensive Income			
	Common Stock	Capital Surplus	Retained Earnings	Treasury Stock	Unrealized Gain on Available-for-Sale Securities	Total	Minority Interests	Total Equity
BALANCE AT MARCH 31, 2011	\$ 160,003	\$ 192,765	\$ 487,798	\$ (60,071)	\$ 3,116	\$ 783,611	\$ 433	\$ 784,044
Net income			98,475			98,475		98,475
Cash dividends, \$1.41 per share			(29,213)			(29,213)		(29,213)
Purchase of treasury stock				(14)		(14)		(14)
Disposal of treasury stock		1		2		3		3
Net change in the year					903	903	(49)	854
BALANCE AT MARCH 31, 2012	\$ 160,003	\$ 192,766	\$ 557,060	\$ (60,083)	\$ 4,019	\$ 853,765	\$ 384	\$ 854,149

See notes to consolidated financial statements.

Consolidated Statement of Cash Flows
FP CORPORATION and Subsidiaries
Year Ended March 31, 2012

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2012	2011	2012
OPERATING ACTIVITIES:			
Income before income taxes and minority interests	¥ 14,570	¥ 13,450	\$ 177,264
Adjustments for:			
Income taxes—paid	(4,943)	(6,192)	(60,136)
Depreciation and amortization	9,729	9,317	118,370
Gain on negative goodwill		(219)	
Impairment loss	21		252
Provision for (reversal of) allowance for doubtful accounts	17	(98)	210
Provision for retirement benefits	134	176	1,631
Retirement allowances for directors and corporate auditors	51	94	617
Loss on disposal or sale of property, plant and equipment	30	196	361
Insurance income		(531)	
Losses from a natural disaster	242	696	2,943
Changes in operating assets and liabilities, net of effects:			
Increase in trade receivables	(5,786)	(1,109)	(70,394)
Increase in inventories	(2,298)	(1,111)	(27,957)
Increase in other accounts receivables	(98)	(36)	(1,192)
Increase trade payables	2,663	1,135	32,396
Receipt of insurance income	500	31	6,083
Payment of losses from a natural disaster	(526)	(20)	(6,402)
Other—net	1,934	(1,488)	23,544
Total adjustments	1,670	841	20,326
Net cash provided by operating activities	16,240	14,291	197,590
INVESTING ACTIVITIES:			
Purchases of property, plant and equipment	(9,241)	(10,781)	(112,437)
Purchases of intangible assets	(308)	(275)	(3,750)
Proceeds from sale of investment securities	9	523	108
Proceeds from purchase of investments in subsidiaries resulting in change in scope of consolidation		1,466	
Purchase of investments in subsidiaries resulting in change in scope of consolidation		(116)	
Purchases of investment securities	(80)	(20)	(977)
Payments for long-term loans	(30)	(70)	(368)
Proceeds from collection of long-term loans	95	747	1,157
Other—net	47	324	582
Net cash used in investing activities	(9,508)	(8,202)	(115,685)
FINANCING ACTIVITIES:			
Decrease in short-term bank loans—net	(1,100)	(3,140)	(13,384)
Increase in commercial paper—net		5,000	
Proceeds from long-term debt	13,700	13,000	166,687
Repayments of long-term debt	(13,678)	(11,461)	(166,419)
Purchase of treasury stock	(1)	(1,722)	(14)
Dividends paid	(2,398)	(2,292)	(29,179)
Repayments of lease obligations	(2,612)	(3,003)	(31,777)
Other—net	(6)	(301)	(78)
Net cash used in financing activities	(6,095)	(3,919)	(74,164)
NET INCREASE IN CASH AND CASH EQUIVALENTS	637	2,170	7,741
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	13,273	11,103	161,495
CASH AND CASH EQUIVALENTS, END OF YEAR	¥ 13,910	¥ 13,273	\$ 169,236

See notes to consolidated financial statements.

1. BASIS OF PRESENTING CONSOLIDATED FINANCIAL STATEMENTS

The accompanying consolidated financial statements of FP CORPORATION (the “Company”) and subsidiaries have been prepared in accordance with the provisions set forth in the Japanese Financial Instruments and Exchange Act and its related accounting regulations, and in conformity with accounting principles generally accepted in Japan, which are different in certain respects as to application and disclosure requirements from 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 2011 consolidated financial statements to conform to the classifications used in 2012.

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 ¥82.19 to \$1, the rate of exchange at March 31, 2012. 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, 2012 and 2011 include the accounts of the Company and all subsidiaries (34 in 2012 and 2011) (collectively, 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 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.

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) Business Combination

In December 2008, the Accounting Standards Board of Japan (the “ASBJ”) issued a revised accounting standard for business combinations, ASBJ Statement No. 21, “Accounting Standard for Business Combinations.” Major accounting changes under the revised accounting standard are as follows: (1) The revised standard requires accounting for business combinations only by the purchase method. As a result, the pooling of interests method of accounting is no longer allowed. (2) The previous accounting standard required research and development costs to be charged to income as incurred. Under the revised standard, in-process research and development costs (IPR&D) acquired in a business combination is capitalized as an intangible asset. (3) The previous accounting standard provided for a bargain purchase gain (negative goodwill) to be systematically amortized over a period not exceeding 20 years. Under the revised standard, the acquirer recognizes the bargain purchase gain in profit or loss immediately on the acquisition date after reassessing and confirming that all of the assets acquired and all of the liabilities assumed have been identified after a review of the procedures used in the purchase allocation. The revised standard was applicable to business combinations undertaken on or after April 1, 2010.

(c) 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.

(d) Inventories

Inventories are stated at lower of cost or net selling value. The cost is determined by the following methods:

- The monthly average method for merchandise, finished products, semifinished products, work in process, and raw materials
- The specific identification for real estate for sale
- The last purchased cost method for supplies

(e) Investment Securities

All investment securities are classified as available-for-sale securities. Marketable available-for-sale securities are reported at fair value, with unrealized gains and losses, net of applicable taxes, reported in a separate component of equity. 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.

(f) 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. Machinery and equipment held for lease are depreciated by the straight-line method over the respective lease periods.

The range of useful lives is mainly as follows:

- Buildings and structures 15 to 35 years
- Machinery and equipment (excluding leases) 4 to 8 years

(g) 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.

(h) Other Assets

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

(i) 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.

(j) Liability for Employees' Retirement Benefits

The Company and certain consolidated subsidiaries have non-contributory-funded pension plans covering substantially all of their employees.

The Group accounts 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.

(k) Retirement Allowances for Directors and Corporate Auditors

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

(l) Asset Retirement Obligations

In March 2008, the ASBJ published ASBJ Statement No. 18, "Accounting Standard for Asset Retirement Obligations" and ASBJ Guidance No. 21, "Guidance on Accounting Standard for Asset Retirement Obligations." Under this accounting standard, an asset retirement obligation is defined as a legal obligation imposed either by law or contract that results from the acquisition, construction, development and normal operation of a tangible fixed asset and is associated with the retirement of such tangible fixed asset. The asset retirement obligation is recognized as the sum of the discounted cash flows required for the future asset retirement and is recorded in the period in which the obligation is incurred if a reasonable estimate can be made. If a reasonable estimate of the asset retirement obligation cannot be made in the period the asset retirement obligation is incurred, the liability should be recognized when a reasonable estimate of asset retirement obligation can be made. Upon initial recognition of a liability for an asset retirement obligation, an asset retirement cost is capitalized by increasing the carrying amount of the related fixed asset by the amount of the liability. The asset retirement cost is subsequently allocated to expense through depreciation over the remaining useful life of the asset. Over time, the liability is accreted to its present value each period. Any subsequent revisions to the timing or the amount of the original estimate of undiscounted cash flows are reflected as an increase or a decrease in the carrying amount of the liability and the capitalized amount of the related asset retirement cost.

(m) Research and Development Costs

Research and development costs are charged to income as incurred.

(n) Leases

The Group leases certain equipment as a lessee.

All finance lease transactions are capitalized to recognize lease assets and lease obligations in the consolidated balance sheet.

(o) Bonuses to directors and corporate auditors

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

(p) Income Taxes

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 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.

(q) 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. Diluted net income per share was not presented because there were no dilutive securities for the years ended March 31, 2012 and 2011.

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.

(r) Accounting Changes and Error Corrections

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

(1) Changes in Accounting Policies:

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

(2) Changes in Presentations:

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

(3) Changes in Accounting Estimates:

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

(4) Corrections of Prior-Period Errors:

When an error in prior-period financial statements is discovered, those statements are restated. This accounting standard and the guidance are applicable to accounting changes and corrections of prior-period errors which are made from the beginning of the fiscal year that begins on or after April 1, 2011.

(s) New Accounting Pronouncements

Accounting Standard for Retirement Benefits—On May 17, 2012, the ASBJ issued ASBJ Statement No. 26, “Accounting Standard for Retirement Benefits” and ASBJ Guidance No. 25, “Guidance on Accounting Standard for Retirement Benefits,” which replaced the Accounting Standard for Retirement Benefits that had been issued by the Business Accounting Council in 1998 with effective date of April 1, 2000 and the other related practical guidances, being followed by partial amendments from time to time through 2009.

Major changes are as follows:

(a) Treatment in the balance sheet

Under the current requirements, actuarial gains and losses and past service costs that are yet to be recognized in profit or loss are not recognized in the balance sheet, and the difference between retirement benefit obligations and plan assets (hereinafter, “deficit or surplus”), adjusted by such unrecognized amounts, are recognized as a liability or asset.

Under the revised accounting standard, actuarial gains and losses and past service costs that are yet to be recognized in profit or loss shall be recognized within equity (accumulated other comprehensive income), after adjusting for tax effects, and the deficit or surplus shall be recognized as a liability (liability for retirement benefits) or asset (asset for retirement benefits).

(b) Treatment in the statement of income and the statement of comprehensive income (or the statement of income and comprehensive income)

The revised accounting standard would not change how to recognize actuarial gains and losses and past service costs in profit or loss. Those amounts would be recognized in profit or loss over a certain period no longer than the expected average remaining working lives of the employees. However, actuarial gains and losses and past service costs that arose in the current period and yet to be recognized in profit or loss shall be included in other comprehensive income and actuarial gains and losses and past service costs that were recognized in other comprehensive income in prior periods and then recognized in profit or loss in the current period shall be treated as reclassification adjustments.

This accounting standard and the guidance are effective for the end of annual periods beginning on or after April 1, 2013 with earlier application being permitted from the beginning of annual periods beginning on or after April 1, 2013. However, no retrospective application of this accounting standard to consolidated financial statements in prior periods is required.

The Company expects to apply the revised accounting standard from the end of the annual period beginning on April 1, 2013 and is in the process of measuring the effects of applying the revised accounting standard for the year ending March 31, 2014.

3. INVESTMENT SECURITIES

Investment securities as of March 31, 2012 and 2011 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars	
	2012	2011	2012	
Non-current:				
Marketable equity securities	¥ 2,498	¥ 2,425	\$ 30,388	
Non-marketable equity securities	382	397	4,652	
Trust fund investment and other	54	51	658	
Total	¥ 2,934	¥ 2,873	\$ 35,698	

The carrying amounts and aggregate fair values of investment securities at March 31, 2012 and 2011 were as follows:

	Millions of Yen			
	Cost	Unrealized Gains	Unrealized Losses	Fair Value
March 31, 2012				
Securities classified as:				
Available-for-sale:				
Equity securities	¥ 1,970	¥ 594	¥ (66)	¥ 2,498
Trust fund investments	48	6	(0)	54

	Millions of Yen			
	Cost	Unrealized Gains	Unrealized Losses	Fair Value
March 31, 2011				
Securities classified as:				
Available-for-sale:				
Equity securities	¥ 1,973	¥ 622	¥ (170)	¥ 2,425
Trust fund investments	49	2	(0)	51

	Thousands of U.S. Dollars			
	Cost	Unrealized Gains	Unrealized Losses	Fair Value
March 31, 2012				
Securities classified as:				
Available-for-sale:				
Equity securities	\$ 23,967	\$ 7,225	\$ (804)	\$ 30,388
Trust fund investments	590	71	(3)	658

The impairment losses on available-for-sale equity securities for the years ended March 31, 2012 and 2011 were ¥89 million (\$1,089 thousand) and ¥7 million, respectively.

4. INVENTORIES

Inventories at March 31, 2012 and 2011 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars	
	2012	2011	2012	
Merchandise	¥ 2,088	¥ 1,930	\$ 25,402	
Real estate for sale	13	13	152	
Finished products	12,562	10,642	152,846	
Work in process	132	145	1,601	
Raw materials	1,645	1,437	20,018	
Supplies	539	539	6,558	
Total	¥ 16,979	¥ 14,706	\$ 206,577	

5. PROPERTY, PLANT AND EQUIPMENT

Under certain conditions, such as receipt of government subsidy for specific fixed assets, Japanese tax laws permit companies to defer the profit arising from such transactions by reducing the cost of the assets acquired or by providing a special reserve in the equity section.

The reduced-value entry, which is directly deducted from machinery and equipment, amounted to ¥ 335 million (\$4,070 thousand). The reduced-value entry is applied due to government subsidies.

Depreciation expenses for the years ended March 31, 2012 and 2011, were ¥9,729 million (\$118,371 thousand) and ¥9,317 million, respectively.

6. INVESTMENT PROPERTY

In November 2008, the ASBJ issued ASBJ Statement No. 20, "Accounting Standard for Investment Property and Related Disclosures" and issued ASBJ Guidance No. 23, "Guidance on Accounting Standard for Investment Property and Related Disclosures."

The Group owns certain rental properties such as warehouses and land in Fukuyama and other areas. The net of rental income and operating expenses for those rental properties was ¥29 million (\$355 thousand) and ¥42 million for the fiscal years ended March 31, 2012 and 2011, respectively.

In addition, the carrying amounts, changes in such balances and market prices of such properties are as follows:

March 31, 2012		Millions of Yen	
		Carrying Amount	Fair Value
April 1, 2011	Increase/Decrease	March 31, 2012	March 31, 2012
¥ 2,321	¥ (61)	¥ 2,260	¥ 2,696

March 31, 2011		Millions of Yen	
		Carrying Amount	Fair Value
April 1, 2010	Increase/Decrease	March 31, 2011	March 31, 2011
¥ 2,626	¥ (305)	¥ 2,321	¥ 2,388

March 31, 2012		Thousands of U.S. Dollars	
		Carrying Amount	Fair Value
April 1, 2011	Increase/Decrease	March 31, 2012	March 31, 2012
\$ 28,239	\$ (739)	\$ 27,500	\$ 32,807

Notes:

- 1) Carrying amount recognized in the consolidated balance sheet is net of accumulated depreciation and accumulated impairment losses, if any.
- 2) Decrease during the fiscal year ended March 31, 2012, primarily represents depreciation of ¥24 million (\$290 thousand).
- 3) Fair value of properties as of March 31, 2012, is measured by the Group, based on the assessed value of fixed assets and roadside land prices for tax assessment purposes.

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

Short-term bank loans at March 31, 2012 and 2011, which consisted of bank overdrafts, bore interest at annual rates of 0.28% to 0.305% and 0.25% to 0.305%, respectively.

Long-term debt at March 31, 2012 and 2011 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2012	2011	2012
Unsecured loans from banks and other financial institutions due serially to 2017 with interest rates ranging from 0.18 % to 1.42 % (2012) and from 0.18% to 1.654% (2011)	¥ 26,808	¥ 26,786	\$ 326,177
Less current portion	(11,205)	(12,650)	(136,332)
Long-term debt, less current portion	¥ 15,603	¥ 14,136	\$ 189,845

The aggregate annual maturities of long-term debt as of March 31, 2012 were as follows:

Years Ending March 31	Millions of Yen	Thousands of U.S. Dollars
2013	¥ 11,205	\$ 136,332
2014	7,035	85,593
2015	3,873	47,118
2016	1,551	18,874
2017	3,144	38,260
Total	¥ 26,808	\$ 326,177

The Company and certain subsidiaries have entered into credit agreements with several Japanese banks under which the banks committed a maximum of ¥40,600 million (\$493,977 thousand) and ¥41,600 million to the Company and certain subsidiaries in the form of cash borrowings at March 31, 2012 and 2011, respectively. The unused lines of credit under these agreements amounted to ¥35,100 million (\$427,059 thousand) and ¥35,000 million at March 31, 2012 and 2011, respectively.

8. 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, 2012 and 2011 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2012	2011	2012
Projected benefit obligation	¥ 3,507	¥ 3,363	\$ 42,675
Fair value of plan assets	(1,505)	(1,448)	(18,313)
Unrecognized actuarial loss	(22)	(47)	(268)
Unrecognized prior service cost	(8)	(30)	(101)
Net liability	¥ 1,972	¥ 1,838	\$ 23,993

The components of net periodic benefit costs for the years ended March 31, 2012 and 2011 are as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2012	2011	2012
Service cost	¥ 426	¥ 438	\$ 5,180
Interest cost	46	43	562
Expected return on plan assets	(14)	(13)	(175)
Recognized actuarial loss	35	29	431
Amortization of prior service cost	22	22	267
Net periodic benefit costs	¥ 515	¥ 519	\$ 6,265

Assumptions used for the years ended March 31, 2012 and 2011 are set forth as follows:

	2012	2011
Discount rate	2.0 %	2.0 %
Expected rate of return on plan assets	1.5 %	1.5 %
Amortization period of prior service cost	5 years	5 years
Recognition period of actuarial gain/loss	5 years	5 years

9. RETIREMENT ALLOWANCES FOR DIRECTORS AND CORPORATE AUDITORS

Retirement allowances for directors and corporate auditors are paid subject to approval of the shareholders.

The Company and certain subsidiaries recorded a liability for their unfunded retirement allowances plan covering all of their directors and corporate auditors. The annual provisions for retirement allowances for directors and corporate auditors for the years ended March 31, 2012 and 2011 were ¥72 million (\$ 873 thousand) and ¥ 94 million, respectively.

10. EQUITY

Japanese companies are subject to the Companies Act of Japan (the “Companies Act”). The significant provisions in the Companies Act that affect financial and accounting matters are summarized below:

(a) Dividends

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

(c) Treasury stock and treasury stock acquisition rights

The Companies Act also provides for companies to purchase treasury stock and dispose of such treasury stock by resolution of the Board of Directors. The amount of treasury stock purchased cannot exceed the amount available for distribution to the shareholders which is determined by specific formula. Under the Companies Act, stock acquisition rights are presented as a separate component of equity.

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

11. RESEARCH AND DEVELOPMENT COSTS

Research and development costs included in operating expenses were ¥1,052 million (\$12,797 thousand) and ¥1,102 million for the years ended March 31, 2012 and 2011, respectively.

12. LOSSES FROM A NATURAL DISASTER

The Group recorded the amount of losses attributable to the Great East Japan Earthquake that occurred in March 2011. The details of the losses are as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2012	2011	2012
Cost for repair of plant and equipment	¥ 82	¥ 409	\$ 994
Cost for transport of private power generation	52		632
Loss for lost of inventories	31	153	373
Other	77	134	944
Total	¥ 242	¥ 696	\$ 2,943

13. 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, 2012 and 2011.

The tax effects of significant temporary differences and tax loss carryforwards which resulted in deferred tax assets and liabilities at March 31, 2012 and 2011 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2012	2011	2012
Deferred tax assets:			
Tax loss carry forwards	¥ 37	¥ 14	\$ 456
Accrued enterprise taxes	280	196	3,402
Accrued expenses	1,082	1,268	13,165
Accrued pension and severance costs	695	739	8,461
Retirement allowances for directors and corporate auditors	390	423	4,744
Allowance for loss on investments	158	148	1,918
Other	502	519	6,114
Less valuation allowance	(461)	(386)	(5,611)
Amount of offset against deferred tax liabilities	266	513	3,244
Total	2,417	2,408	29,405
Deferred tax liabilities:			
Unrealized gain on available-for-sale securities	(211)	(252)	(2,569)
Insurance income		(202)	
Other	(82)	(90)	(1,004)
Amount of offset against deferred tax assets	266	513	3,244
Total	(27)	(31)	(329)
Net deferred tax assets	¥ 2,390	¥ 2,377	¥ 29,076

A reconciliation between the normal effective statutory tax rates and the actual effective tax rates reflected in the accompanying consolidated statement of income for the year ended March 31, 2012 is as follows:

	2012	2011
Normal effective statutory tax rate	40.4%	40.4%
Tax effects on permanent differences	0.4	0.4
Expenses not deductible for tax purposes	(0.1)	(0.7)
Per capita levy of inhabitants taxes	0.4	0.5
Amount of goodwill	0.9	0.5
Tax rate change	1.8	
Other—net	0.6	0.3
Actual effective tax rate	<u>44.4%</u>	<u>40.8%</u>

On December 2, 2011, new tax reform laws were enacted in Japan, which changed the normal effective statutory tax rate from approximately 40.4% to 37.7% effective for the fiscal years beginning on or after April 1, 2012 through March 31, 2015, and to 35.3% afterwards. The effect of this change was to decrease deferred taxes in the consolidated balance sheet as of March 31, 2012 by ¥236 million (\$2,876 thousand) and to increase income taxes—deferred in the consolidated statement of income for the year then ended by ¥263 million (\$3,207 thousand).

14. LEASES

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

Total rental expense for the years ended March 31, 2012 and 2011 was ¥1,478 million (\$17,987 thousand) and ¥1,375 million, respectively, including ¥429 million (\$5,220 thousand) and ¥369 million of lease payments under finance leases.

15. RELATED PARTY DISCLOSURES

(1)Related party transactions between the Company and directors for the year ended March 31, 2012.

Type	Name	Location	Principal Business or Title	Capital		Equity Ownership (%)	Relationship	Transaction	Amount of Transaction (Note 1)		Account	Balanced at Year-End (Note 2)	
				<u>Millions of Yen</u>	<u>Thousands of Dollars</u>				<u>Millions of Yen</u>	<u>Thousands of Dollars</u>		<u>Millions of Yen</u>	<u>Thousands of Dollars</u>
Companies for which directors and their close relatives owned a majority interest (Note 3)	HY Corporation Co.,	Fukuyama,	Lease and management of real estate					Leasing land for delivery center			Revenue received in advance		
	Ltd.	Hiroshima prf.		¥ 50	\$ 608	—	Leasing land		¥ 12	\$ 141		¥ 1	\$ 12

(2)Related party transactions between the consolidated subsidiaries and directors for the year ended March 31, 2012.

Type	Name	Location	Principal Business or Title	Capital		Equity Ownership (%)	Relationship	Transaction	Amount of Transaction (Note 1)		Account	Balanced at Year-End (Note 2)	
				<u>Millions of Yen</u>	<u>Thousands of Dollars</u>				<u>Millions of Yen</u>	<u>Thousands of Dollars</u>		<u>Millions of Yen</u>	<u>Thousands of Dollars</u>
Companies for which directors and their close relatives owned a majority interest (Note 3)								Renting premises for delivery center			Prepaid expenses		
	HY Corporation Co.,	Fukuyama	Lease and management of real estate				Renting premises					¥ 12	\$ 142
	Ltd.	Hiroshima prf.		¥ 50	\$ 608	—			¥ 134	\$ 1,628	Deposits	¥ 112	\$ 1,357

- Notes:
- 1. Excluding consumption taxes
 - 2. Including consumption taxes
 - 3. Yasuhiro Komatsu, who is the representative director of the Company, owns all shares of HY Corporation Co., Ltd.

16. FINANCIAL INSTRUMENTS AND RELATED DISCLOSURES

(1) Policy for financial instruments

The Group has adopted a policy to limit investment to short-term and low-risk financial instruments such as deposits regarding fund management. On the other hand, the Group has adopted a policy to use bank loans or to issue commercial paper to fund ongoing operation. Derivatives are used, not for speculative or trading purposes, but to manage the market risk of fluctuation in foreign currency exchange rates by using foreign currency forward contracts.

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

Receivables such as trade notes and trade accounts are exposed to customer's credit risk. With respect to receivables, the Group sets limits and payment terms for each customer based on the internal customer credit management regulation in order to control customer's credit risk. Additionally, each customer's credit line status is regularly checked and monitored by using credit reports and other information.

Although stock such as investment securities are exposed to market price fluctuation, these are mainly customer's stocks. The corporate finance division of the Company monitors the fair value at the end of each month, and reports this to top management.

Payment terms of all accounts payable are within six months.

Short-term bank loans are mainly financed for daily operating purposes and long-term debt (maturity is generally within three years) are financed for capital investment purposes. Loans with variable interest rates are exposed to interest fluctuation risk.

The Group enters into foreign currency forward contracts to hedge the market risk of foreign currency exchange rates fluctuations.

Derivatives are managed and controlled within approved policy. The Group has adopted a policy of only dealing with creditworthy counterparties in order to reduce credit risk when entering into derivative transactions.

(3) Fair value of financial instruments

The contract or notional amounts of derivatives themselves which are shown in the table below do not represent or measure the Group's exposure to credit or market risk.

(a) Fair value of financial instruments

March 31, 2012	Millions of Yen		
	Carrying Amount	Fair Value	Unrealized Gain/Loss
Cash and cash equivalents	¥ 13,910	¥ 13,910	
Receivables:			
Trade notes	14,402	14,387	
Trade accounts	22,483	22,458	
Associated companies	444	444	
Other	2,295	2,295	
Allowance for doubtful accounts	(40)		
Total	39,584	39,584	
Lease investment assets	19	19	
Investment securities	2,552	2,552	
Total	¥ 56,065	¥ 56,065	
Short-term bank loans	¥ 5,500	¥ 5,500	
Current portion of long-term debt	11,205	11,295	¥ 90
Payables:			
Trade accounts	21,560	21,560	
Associated companies	5	5	
Other	7,086	7,086	
Commercial paper	15,000	15,000	
Lease obligations (current)	2,197	2,307	110
Long-term debt	15,603	15,529	(74)
Accrued income taxes	4,032	4,032	
Lease obligations (long-term)	6,403	6,418	15
Total	¥ 88,591	¥ 88,732	¥ 141

March 31, 2011	Millions of Yen		
	Carrying Amount	Fair Value	Unrealized Gain/Loss
Cash and cash equivalents	¥ 13,273	¥ 13,273	
Receivables:			
Trade notes	10,992	10,982	
Trade accounts	20,140	20,122	
Associated companies	410	410	
Other	2,696	2,696	
Allowance for doubtful accounts	(28)		
Total	34,210	34,210	
Lease investment assets	31	31	
Investment securities	2,476	2,476	
Total	¥ 49,990	¥ 49,990	
Short-term bank loans	¥ 6,600	¥ 6,600	
Current portion of long-term debt	12,650	12,765	¥ 115
Payables:			
Trade accounts	18,589	18,589	
Associated companies	5	5	
Other	4,428	4,428	
Commercial paper	15,000	15,000	
Lease obligations (current)	2,560	2,696	136
Long-term debt	14,136	14,070	(66)
Accrued income taxes	2,466	2,466	
Lease obligations (long-term)	7,410	7,430	20
Total	¥ 83,844	¥ 84,049	¥ 205

March 31, 2012	Thousands of U.S. Dollars		
	Carrying Amount	Fair Value	Unrealized Gain/Loss
Cash and cash equivalents	\$ 169,236	\$ 169,236	
Receivables:			
Trade notes	175,234	175,046	
Trade accounts	273,544	273,244	
Associated companies	5,397	5,397	
Other	27,941	27,941	
Allowance for doubtful accounts	(488)		
Total	481,628	481,628	
Lease investment assets	229	229	
Investment securities	31,046	31,046	
Total	\$ 682,139	\$ 682,139	
Short-term bank loans	\$ 66,918	\$ 66,918	
Current portion of long-term debt	136,332	137,427	\$ 1,095
Payables:			
Trade accounts	262,324	262,324	
Associated companies	67	67	
Other	86,198	86,198	
Commercial paper	182,504	182,504	
Lease obligations (current)	26,727	28,063	1,336
Long-term debt	189,845	188,941	(904)
Accrued income taxes	49,060	49,060	
Lease obligations (long-term)	77,909	78,095	186
Total	\$ 1,077,884	\$ 1,079,597	\$ 1,713

Assets

As for cash and cash equivalents, receivables and lease investment assets, the carrying value of these assets approximate fair value because of their short maturities.

Investment securities

The fair value of investment securities is measured at the quoted market price of the stock exchange for the equity instruments.

Liabilities

As for short-term bank loans, payables, commercial paper and accrued income taxes, the Group applied the carrying value, because the carrying value of these liabilities approximate fair value because of their short maturities.

The Group determines the fair value of long-term debt with a fixed interest rate by discounting the cash flows (using the risk free rate plus spread as the discount rate). Regarding long-term debts with variable interest rate, the carrying value of these loans approximate fair value according to contract condition of the loan interest rate which is reset periodically.

As for lease obligation, the Group determines the fair value by discounting the cash flow, (using the long-term prime rate as the discount rate).

(b) Carrying amount of financial instruments whose fair value cannot be reliably determined

	Millions of Yen		Thousands of U.S. Dollars
	2012	2011	2012
Investments in equity instruments that do not have a quoted market price in an active market	¥ 450	¥ 465	\$ 5,479

(4) Maturity analysis for financial assets and securities with contractual maturities

March 31, 2012	Millions of Yen			
	Due in One Year or Less	Due after One Year through Five Years	Due after Five Years through 10 Years	Due after 10 Years
Cash and cash equivalents	¥ 13,910			
Receivables:				
Trade notes	14,402			
Trade accounts	22,483			
Associated companies	444			
Others	2,296			
Lease investment assets	19			
Investment securities	5	¥ 32		
Total	¥ 53,559	¥ 32		

March 31, 2012	Thousands of U.S. Dollars			
	Due in One Year or Less	Due after One Year through Five Years	Due after Five Years through 10 Years	Due after 10 Years
Cash and cash equivalents	\$ 169,236			
Receivables:				
Trade notes	175,234			
Trade accounts	273,544			
Associated companies	5,397			
Others	27,941			
Lease investment assets	229			
Investment securities	68	\$ 388		
Total	\$ 651,649	\$ 388		

Please see Note 7 for annual maturities of long-term debt.

17. COMPREHENSIVE INCOME

For the year ended March 31, 2012

Each component of other comprehensive income consists of the following:

	Millions of Yen	Thousands of U.S. Dollars
	2012	2012
Unrealized (loss) gain on available-for-sale securities:		
Gains arising during the year	¥ (11)	\$ (135)
Reclassification adjustments to profit or loss	90	1,095
Amount before income tax effect	79	960
Income tax effect	(5)	(57)
Total	¥ 74	\$ 903

The corresponding information for the year ended March 31, 2011 was not required under the accounting standard for presentation of comprehensive income as an exemption for the first year of adopting that standard and not disclosed herein.

18. SUBSEQUENT EVENTS

Appropriations of Retained Earnings

The following appropriation of retained earnings at March 31, 2012 was approved at the board of directors meeting held on May 25, 2012:

	Millions of Yen	Thousands of U.S. Dollars
Year-end cash dividends, ¥60.00 (\$0.73) per share	¥ 1,242	\$ 15,110

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