

## Financial Results for the Fiscal Year Ended February 29, 2008

Name of company listed: Nippon Shikizai, Inc.  
 Stock code number: 4920  
 President: Kouji Okumura  
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 Scheduled date of annual general meeting of shareholders: May 29, 2008  
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Stock exchange listing: JASDAQ  
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(Amounts are rounded down to the nearest million yen)

### 1. Consolidated Financial Results (March 1, 2007 – February 29, 2008)

#### (1) Consolidated results of operations

(Percentage represents relevant change in percentage compared to the same period of the previous year)

	Sales		Operating income		Ordinary income		Net income	
	Million yen	%	Million yen	%	Million yen	%	Million yen	%
Fiscal year ended Feb. 2008	7,724	8.7	146	(43.1)	49	(81.0)	(504)	-
Fiscal year ended Feb. 2007	7,103	8.0	257	10.9	262	131.5	(588)	-

	Net income per share (basic)	Net income per share (diluted)	Return on equity	Ordinary income to total assets	Operating income to sales
	Yen	Yen	%	%	%
Fiscal year ended Feb. 2008	(116.98)	-	(26.5)	0.7	1.9
Fiscal year ended Feb. 2007	(136.21)	-	(23.7)	3.3	3.6

Reference: Equity in earnings of non-consolidated subsidiaries Feb. 2008: - million yen Feb. 2007: - million yen

#### (2) Consolidated financial position

	Total assets	Net assets	Equity ratio	Net assets per share
	Million yen	Million yen	%	Yen
As of Feb. 29, 2008	7,788	1,664	21.4	385.66
As of Feb. 28, 2007	7,654	2,151	28.1	498.53

Reference: Shareholders' equity Feb. 2008: 1,664 million yen Feb. 2007: 2,151 million yen

#### (3) Consolidated cash flow position

	Cash flows from operating activities	Cash flows from investment activities	Cash flows from financial activities	Cash and cash equivalents at end of period
	Million yen	Million yen	Million yen	Million yen
Fiscal year ended Feb. 2008	(74)	(394)	454	573
Fiscal year ended Feb. 2007	514	(30)	(418)	579

### 2. Dividends

(Record date)	Dividends per share			Total dividends (annual)	Dividend payout ratio (consolidated)	Dividend on equity (consolidated)
	Interim	Year-end	Annual			
	Yen	Yen	Yen			
Fiscal year ended Feb. 2007	-	-	0.00	-	-	-
Fiscal year ended Feb. 2008	-	-	0.00	-	-	-
Fiscal year ending Feb. 2009 (forecast)	-	10.00	10.00	-	255.86	-

### 3. Consolidated Forecast for the Fiscal Year Ending February 28, 2009 (March 1, 2008 – February 28, 2009)

(Percentage represents relevant change in percentage compared to the same period of the previous year)

	Sales		Operating income		Ordinary income		Net income		Net income per share (basic)
	Million yen	%	Million yen	%	Million yen	%	Million yen	%	Yen
First half	3,599	(14.2)	50	(77.3)	(2)	-	(36)	-	(8.57)
Full year	7,684	(0.5)	267	82.4	131	163.6	16	-	3.91

**4. Others**

(1) Changes in significant subsidiaries during the period (changes in specified subsidiaries resulting in changes in scope of consolidation): None

(2) Changes in accounting principles, procedures and presentation methods for preparation of consolidated financial statements

1) Changes caused by revision of accounting standards: Yes

2) Other changes: Yes

Note: Please refer to “Significant Items in Preparing Consolidated Financial Statements” on page 17 for further information.

(3) Number of shares outstanding (common stock)

1) Number of shares outstanding at end of period (including treasury stock)

Feb. 2008: 4,318,444 shares Feb. 2007: 4,318,444 shares

2) Number of treasury stock at end of period

Feb. 2008: 1,800 shares Feb. 2007: 1,800 shares

Note: Please refer to “Per Share Information” on page 38 for the number of shares used in calculating net income per share.

**(Reference) Summary of Non-consolidated Financial Results****1. Non-consolidated Financial Results (March 1, 2007 – February 29, 2008)**

(1) Non-consolidated results of operations

(Percentage represents relevant change in percentage compared to the same period of the previous year)

	Sales		Operating income		Ordinary income		Net income	
	Million yen	%	Million yen	%	Million yen	%	Million yen	%
Fiscal year ended Feb. 2008	6,082	10.0	276	(17.5)	204	(44.6)	(384)	-
Fiscal year ended Feb. 2007	5,527	9.4	335	23.1	370	94.9	(740)	-

	Net income per share (basic)	Net income per share (diluted)
	Yen	Yen
Fiscal year ended Feb. 2008	(89.10)	-
Fiscal year ended Feb. 2007	(171.43)	-

(2) Non-consolidated financial position

	Total assets	Net assets	Equity ratio	Net assets per share
	Million yen	Million yen	%	Yen
As of Feb. 29, 2008	7,063	1,433	20.3	332.12
As of Feb. 28, 2007	6,867	1,850	26.9	428.74

Reference: Shareholders' equity

Feb. 2008: 1,433 million yen Feb. 2007: 1,850 million yen

**2. Non-consolidated Forecast for the Fiscal Year Ending February 28, 2009 (March 1, 2008 – February 28, 2009)**

(Percentage represents relevant change in percentage compared to the same period of the previous year)

	Sales		Operating income		Ordinary income		Net income		Net income per share (basic)
	Million yen	%	Million yen	%	Million yen	%	Million yen	%	Yen
First half	2,871	(10.7)	112	(49.3)	77	(62.8)	43	110.1	9.98
Full year	6,089	0.1	341	23.5	242	18.5	128	-	29.71

**\* Cautionary statement with respect to forward-looking statements**

The above forecasts were made by management based on currently available data and information. Please be aware that actual results may turn out different from those forecast as the Company's business is affected by many factors. Please refer to page 4 for details on the above forecasts.

## 1. Results of Operations

### (1) Analysis of Operating Results

Japan's economy posted solid growth in the first half of the fiscal year due to strong exports, growth in capital expenditures and consumer spending. In the second half, however, there were increasing concerns about a possible economic slowdown. One cause is signs of further weakening of the U.S. economy as the subprime mortgage crisis deepens. The rapid decline in the dollar's value as the yen appreciates, the higher cost of raw materials and energy linked to the rising price of crude oil, and weakening exports and capital expenditures also fueled worries about the economic outlook. In Europe, the economy remained healthy due to consumer spending and higher internal demand in the euro zone. But economic growth in Europe began to slow in the fiscal year's second half due to the subprime mortgage problem.

In Japan's cosmetics industry, sales were 0.7% higher than in the previous fiscal year despite the maturity of the cosmetics market because of growth in sales of hair care products and specialty cosmetics. However, sales in Japan of skin care products and makeup products, the two major categories at Nippon Shikizai, decreased for the third consecutive year.

Due to this operating environment, there was also even more intense price-based competition among companies in the cosmetics contract manufacturing business. This created a difficult operating environment that forced the Group to work even harder at cutting costs and developing new technologies.

In this environment, the Group took a number of steps aimed at increasing sales. Initiatives included strengthening skills in offering proposals and upgrading R&D capabilities. The Group also participated in exhibitions, such as the Cosmeeting exhibition in Paris, to build relationships with new customers in Japan and overseas as well as capture orders for new products. To support French consolidated subsidiary THEPENIER PHARMA INDUSTRIE S.A., the Group conducted extensive global sales activities that took advantage of the location of this company in Europe.

However, Thepenier's pharmaceuticals contract manufacturing operations have been impacted by the termination of production and shipments due to a problem that occurred in the second half of 2007 involving the quality of certain mouthwashes. This resulted in a larger than expected loss at Thepenier. Nippon Shikizai provided financial support by extending a new loan totaling 600,000 euros.

In February 2008, the board of directors approved a resolution to abolish the retirement benefit system for directors as part of revisions to the entire remuneration system for directors. In conjunction with this action, a 28 million yen addition to the allowance for directors' retirement benefits for the fiscal year was included in selling, general and administrative expenses and a 319 million yen addition to this allowance for prior-year retirement benefits for directors was posted as an extraordinary loss.

Fiscal year consolidated sales increased 8.7% to 7,724 million yen, but operating income was down 43.1% to 146 million yen and ordinary income fell 81.0% to 49 million yen. Net income was also affected by the additional allowance for prior-year retirement benefits for directors, 155 million yen in retirement benefits approved at the 50<sup>th</sup> annual general meeting of shareholders for three retiring directors, and extraordinary losses that included a provision of 32 million yen for contingent loss reserve due to the mouthwash quality problem at Thepenier. The result was a net loss of 504 million yen compared with a net loss of 588 million yen in the previous fiscal year.

Results by business segment were as follows.

#### (1) Cosmetics

Since cosmetics for the eyes are still a major component of the Japanese cosmetics market, sales of lipstick, facial powders, UV creams and other products were lower than one year earlier. However, sales of other products increased. In particular, there was a big increase in sales of mascara and products that combine eye shadow and mascara.

The result was a 10.1% increase in segment sales to 6,280 million yen and a 4.2% increase in operating income to 747 million yen.

(2) Pharmaceuticals and other products

In this segment, there was steady growth in terms of orders for mouthwash and econazole. But due to a quality problem involving mouthwash, one of our main products, we were unable to make any of the planned mouthwash shipments in the fiscal year's second half. The result was year-on-year drop in sales of 605,000 euros and, after the effect of foreign exchange rate changes, a small increase in yen-denominated segment sales.

Segment sales were up 3.3% to 1,443 million yen and operating loss of 3 million yen compared with a 53 million yen income a year earlier.

The depreciation of the yen against the euro from 145.92 yen in the previous fiscal year to 160.95 yen in the fiscal year that ended in February 29, 2008 had the effect of increasing sales by 134 million yen.

Sales by geographic region were as follows.

(3) Japan

Cosmetics were much higher in Japan because of strong sales of eye cosmetics, mainly mascara, eye shadow and combinations of these products, to customers in Japan and other countries. There are no sales in the pharmaceuticals and other products segment in Japan.

The result was a 10.0% increase in sales to 6,082 million yen and 2.9% increase in operating income to 873 million yen.

(4) France

In the cosmetics business, the Group took advantage of Thepenier's location in France to aggressively pursue new orders. In addition, some contract manufacturing orders received by Nippon Shikizai were transferred to this subsidiary. However, in the core pharmaceuticals and other products category, the mouthwash quality problem caused sales to decline. Although total sales in France increased because of the yen's depreciation, the operating loss was larger than in the previous fiscal year.

Sales increased 4.9% to 1,720 million yen and an operating loss of 131 million yen compared with a 72 million yen loss a year earlier.

**Outlook for the new fiscal year**

A number of negative trends are foreseen in the new fiscal year. Prices of crude oil and other materials are likely to rise as funds flow into global futures markets. In addition, employment indicators are expected to worsen while fears about inflation escalate. Due to this outlook, the pace of growth in corporate earnings is expected to decline. Growth of the European economy is expected to slow as well.

In this difficult operating environment, the Nippon Shikizai Group's highest priority is to resolve promptly the mouthwash problem at subsidiary Thepenier and restore the soundness of this company's operations. The Group will continue to use all its resources to capture orders from Japan and other countries to manufacture new products and take actions to achieve further cost savings.

Based on these factors, for the fiscal year ending in February 28, 2009, the Company is forecasting consolidated sales of 7,684 million yen (down 0.5%), operating income of 267 million yen (up 82.4%), ordinary income of 131 million yen (up 163.6%) and net income of 16 million yen compared with a 504 million yen loss a year earlier.

## **(2) Analysis of Financial Condition**

### 1) Assets

Compared with the end of the previous fiscal year, current assets increased 137 million yen, or 4.0%, to 3,585 million yen and fixed assets decreased 2 million yen, or 0.1%, to 4,203 million yen. The result was an increase of 134 million yen, or 1.8%, in total assets to 7,788 million yen. Growth in current assets was mainly attributable to increase in inventories of 165 million yen.

### 2) Liabilities and net assets

#### (Liabilities)

Current liabilities increased 90 million yen, or 3.1%, to 3,020 million yen and long-term liabilities increased 531 million yen, or 20.7%, to 3,102 million yen. This increased total liabilities by 621 million yen, or 11.3%, to 6,123 million yen. Current liabilities increased mainly because of a 262 million yen increase in short-term borrowings, the result of growth in the current portion of long-term borrowings. Long-term liabilities increased mainly because an increase of 251 million yen in long-term borrowings and the 347 million yen addition to the allowance for directors' retirement benefits.

#### (Net assets)

Net assets decreased 487 million yen, or 22.6%, to 1,664 million yen. This was mainly the net result of a 504 million yen decrease in retained earnings under shareholders' equity, and a 17 million yen increase in total valuation and translation adjustments because of an increase in foreign currency translation adjustments.

### 3) Cash flows

Cash and cash equivalents decreased 5 million yen, or 1.0%, during the fiscal year to 573 million yen.

The major components of cash flows were as follows.

#### (Operating cash flows)

Net cash used in operating activities was 74 million yen compared with a positive cash flow of 514 million yen one year earlier. There was loss before income taxes of 470 million yen and adjustments for depreciation of 325 million yen and additions of 347 million yen to the directors' retirement benefit allowance and 32 million yen to the contingent loss reserve, all non-cash expenses. In addition, cash was used by a 148 million yen increase in inventories and a 160 million yen decrease in trade payables.

#### (Investing cash flows)

Net cash used in investing activities was 394 million yen compared with 30 million yen one year ago when proceeds from sales of tangible fixed assets largely offset purchases of tangible fixed assets. The primary use of cash was purchases of tangible fixed assets.

#### (Financing cash flows)

Net cash provided by financing activities was 454 million yen compared with a negative cash flow of 418 million yen one year earlier. The difference was mainly due to proceeds from long-term borrowings.

## (Reference) Cash flow indices

	FY2/05	FY2/06	FY2/07	FY2/08
Shareholders' equity ratio (%)	34.0	33.4	28.1	21.4
Shareholders' equity ratio based on market prices (%)	27.1	24.7	23.7	22.7
Years of debt redemption (years)	5.5	10.9	6.5	-
Interest coverage ratio (times)	7.5	3.6	5.7	-

Notes: 1. Shareholders' equity ratio: Shareholders' equity / Total assets  
2. Shareholders' equity ratio based on market prices: Market capitalization / Total assets  
3. Years of debt redemption: Interest-bearing debt / Operating cash flow  
4. Interest coverage ratio: Operating cash flow / Interest payments  
5. There are no years of debt redemption and interest coverage ratio figures for FY2/08 because the Company had negative operating cash flows.

**(3) Fundamental Policy Regarding Allocation of Earnings and Dividends for the Current and Next Fiscal Years**

The Company regards the return of earnings to shareholders as one of its highest priorities. The fundamental policy is to continuously pay a stable dividend relative to results of operations.

Retained earnings are used to achieve growth, mainly through capital expenditures to upgrade and expand production facilities, raise productivity and develop new products.

However, the Company has made the difficult decision to suspend the dividend applicable to the fiscal year that ended in February 29, 2008 in consideration of the year's operating results and the outlook for business activities.

For the fiscal year ending in February 28, 2009, the Company plans to pay a year-end dividend of 10 yen per share based on the year's operating results and the Group's financial position.

**(4) Business Risks**

The businesses, operating results and financial condition of the Nippon Shikizai Group are vulnerable to the following risks that may have a significant effect on investment decisions.

The Group is taking actions to prevent these problems, spread out risk exposure, hedge risks and otherwise deal with these risks to minimize their potential effect on business activities.

## 1) Changes in interest rates and foreign exchange rates

At the end of the current fiscal year, the Nippon Shikizai Group had debt totaling 3,800 million yen. As a result, changes in interest rates and other trends in financial markets could affect operating performance. In addition, sales, expenses, assets, liabilities and other items denominated in foreign currencies are converted into yen when preparing the consolidated and non-consolidated financial statements. Consequently, foreign exchange rates used for this conversion may cause changes in Japanese yen-denominated figures even though there was no change in the corresponding values in local currencies.

## 2) Laws and regulations

The Nippon Shikizai Group is active in the cosmetics and pharmaceuticals industries, which are governed by the provisions of the Pharmaceutical Affairs Law. Amendments to this law, revisions in standards for its application and other such changes could affect operating results.

3) Interruptions and reductions in business activities due to natural disasters, accidents and other events

Earthquakes, typhoons and other natural disasters could have a serious impact on the Nippon Shikizai Group's manufacturing bases. Although the Group conducts periodic disaster response drills and inspections of facilities, there is no assurance that the Group will be able to perfectly prevent or mitigate disruptions to operations due to a natural disaster or accident. The Zama Factory, which is the Group's primary production facility, is located in a region of Japan where Tokai earthquake (an earthquake of a historic magnitude said to take place on in centuries) could occur. Such an earthquake could stop production activities, cause delays in the Group's ability to supply products and result in other problems that may affect the Group's operating results and financial condition.

4) Product liability

The Nippon Shikizai Group may at some time supply products that have unexpected defects or that require a recall. The Group is taking every action possible to ensure the quality of its products. However, a major product liability judgment or product recall that entails substantial expenses that are not covered by insurance policies could have a detrimental effect on the reputation of the Group's products. This loss of trust could affect the Group's businesses, operating results and financial condition.

5) Performance of overseas subsidiary

Nippon Shikizai subsidiary THEPENIER PHARMA INDUSTRIE S.A. (Thepenier) manufactures and sells pharmaceuticals and cosmetics. Thepenier has been performing poorly since its 2000 acquisition by Nippon Shikizai. In response, Nippon Shikizai has executing a management rehabilitation plan at this subsidiary that includes the provision of substantial assistance for all aspects of Thepenier's operations and aims to improve this company's sales and earnings. As of February 29, 2008, loans from Nippon Shikizai to Thepenier totaled 808 million yen. Consequently, a further deterioration in the operating results of Thepenier may affect the operating results and financial condition of the Nippon Shikizai Group.

## 2. Corporate Group

The Nippon Shikizai Group (the Group) is made up of Nippon Shikizai, Inc. (the Company), one subsidiary, and one affiliated company.

The Company manufactures and performs research and development, both under contract for client companies, for cosmetics (including quasi-drugs). Subsidiary THEPENIER PHARMA INDUSTRIE S.A. primarily manufactures under contract for client companies pharmaceuticals and cosmetics in France.

Avante Inc., an affiliated company, holds 21.4% of the voting rights of the Company, but has no other relationship (sales, technology, manufacturing, personnel, etc.) with this company other than the sharing of certain directors.

The business activities of the Group and roles of the Company and its subsidiary are as follows.

### (1) Cosmetics

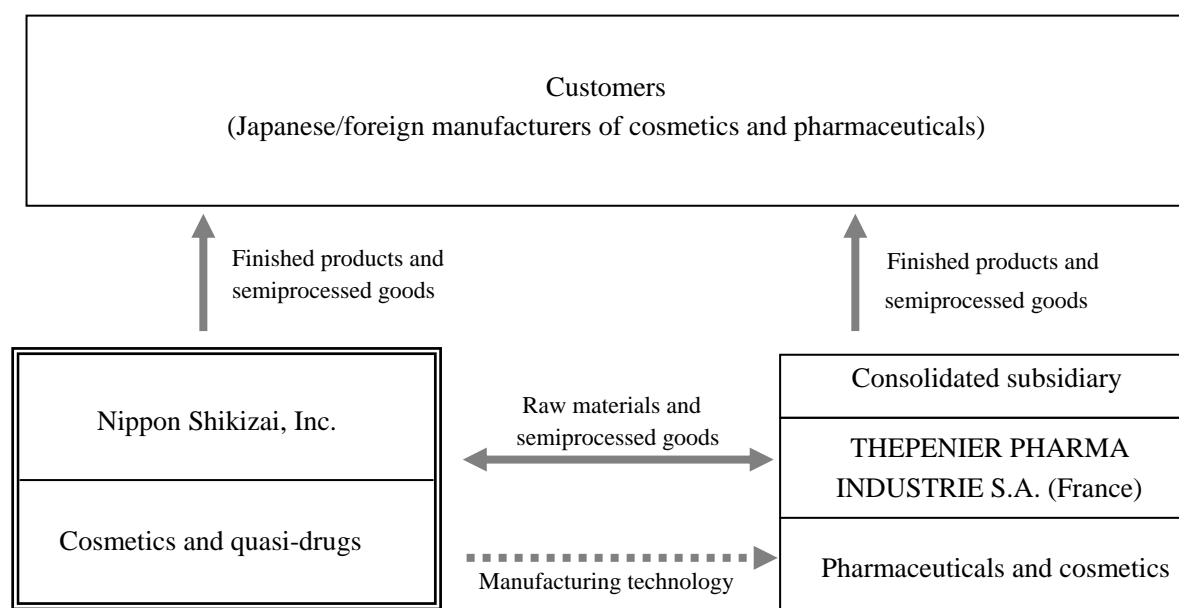
Main products are foundation, eye shadow, rouge, lipsticks, lip creams, moisturizers and UV cream; these products are manufactured and sold by the Company and its subsidiary.

### (2) Pharmaceuticals and other products

Major products are econazole, medicinal toothpastes, mouthwashes, ear washes and hygiene products; these products are manufactured and sold by the subsidiary.

For some cosmetics products, the Company and its subsidiary sell and purchase raw materials and semiprocessed goods to each other, and these two companies manufacture and sell semiprocessed goods and finished products.

Presented below is a schematic of major business activities within the Group.



### 3. Management Policies

#### (1) Fundamental Policy

The corporate philosophy is “the high technology product innovation of Nippon Shikizai is being monitored throughout the world.” In line with this policy, the Company earns the trust of society as a developer and manufacturer of cosmetics while striving to increase its earnings and enterprise value for the benefit of shareholders.

Furthermore, as an organization specializing in the OEM manufacture of cosmetics and pharmaceuticals that do not bear its own brand, the Group’s goal is to use highly sophisticated technology and extensive data resources to supply products that excel in terms of quality and reliability. As a partner for cosmetics manufacturers and other companies, the Group is building an infrastructure capable of performing every step from the formulation of proposals through R&D and the manufacture of finished products.

#### (2) Targets and Performance Indicators

The Group places priority on performance indicators associated with improving profitability and financial soundness. The objective is to improve ordinary income to sales ratio and equity ratio in order to operate efficiently backed by R&D and technological skills that are superior to those of competitors.

#### (3) Medium- and Long-term Management Strategies

Japan’s cosmetics market is mature due to the country’s slowing population growth. Despite indications that the downturn in the cosmetics market may finally come to an end, sales have declined slowly in the past three consecutive years in market sectors accounting for most products made by the Company. As a result, the operating environment has remained challenging, due in part to the decline in prices of cosmetics products during the past several years.

The April 2005 enactment of amendments to Japan’s Pharmaceutical Affairs Law broadened responsibility for product quality, safety and distribution from manufacturers to include both manufacturers and marketers. This change made it easier to separate the roles of manufacturing and sales and the Company to improve the quality control system, and should lead to a substantial increase in the volume of production outsourced to the Company by its clients.

In response to these market conditions in Japan, measures to increase sales and cut costs are important issues for the Company. As one means of accomplishing these two goals, the Company acquired Thepenier, a company located in France in February 2000 and made it a subsidiary.

The Group plans to establish an operating framework with four manufacturing and sales bases: Japan, Europe, Southeast Asia and North America. Management believes this will enable the Group to increase sales as well as become more competitive on a global scale.

“Made in France” cosmetics have an excellent reputation in Japan as well as in the U.S. and elsewhere, enabling the creation of prestigious brands. Furthermore, demand for French cosmetics is strong. For these reasons, the Group will be conducting marketing activities on a global scale.

Moreover, to become still more cost competitive, the Company plans to consider the acquisition and use of production bases in Southeast Asia.

(4) Key Issues

The Group currently faces a challenging operating environment as competition intensifies. Based on its medium- and long-term management strategies, important goals are as follows.

- 1) Increase sales through new products that have clearly defined targets and the development of ties with new customers.
- 2) Use the resources of the entire Group to establish a competitive edge by reinforcing and enhancing the company-wide quality assurance framework, and switch to a better profit structure through actions such as cutting costs in order to improve productivity.
- 3) At Thepenier, which has been performing poorly, conduct unified sales activities with Nippon Shikizai to improve sales capabilities, which is a key issue at this subsidiary. The aim is to expand and upgrade overseas operations, particularly in Europe.
- 4) Maintain a rigorous system of internal controls to ensure that business operations conform to applicable laws and regulations.

(5) Establishment and Operation of Internal Controls

Please see the corporate governance report “Basic policy and arrangement of the internal control system.”

(6) Other Important Business Matters

Not applicable.

## 4. Consolidated Financial Statements

## (1) Consolidated balance sheets

(Unit: thousand yen)

Account	*	As of February 28, 2007		As of February 29, 2008		Difference
		Amount	%	Amount	%	Amount
Assets						
I. Current assets						
1. Cash and deposits	*1	862,335		856,535		
2. Trade notes and accounts receivable		1,416,712		1,369,847		
3. Inventories		1,002,419		1,167,907		
4. Deferred tax assets		106,754		99,932		
5. Others		63,869		95,057		
6. Allowances for doubtful accounts		(4,250)		(4,277)		
Total current assets		3,447,840	45.0	3,585,002	46.0	137,161
II. Fixed assets						
1. Tangible fixed assets						
(1) Buildings and structures	*1	4,606,601		4,765,093		
Accumulated depreciation		2,944,747	1,661,854	3,100,174	1,664,919	
(2) Machinery and vehicles		2,462,541		2,576,193		
Accumulated depreciation		2,036,825	425,715	2,118,051	458,142	
(3) Tools, furniture, and fixtures		573,099		604,022		
Accumulated depreciation		460,517	112,582	491,427	112,594	
(4) Land	*1		1,406,933		1,407,903	
(5) Construction in progress			3,210		-	
Total tangible fixed assets			3,610,296		3,643,559	33,263
2. Intangible fixed assets			187,114		187,033	(80)
3. Investments and other assets						
(1) Investment securities	*1		249,560		204,656	
(2) Deferred tax assets			-		12,767	
(3) Others			174,089		165,822	
(4) Allowances for doubtful accounts			(14,884)		(10,546)	
Total investments and other assets			408,765		372,700	(36,064)
Total fixed assets			4,206,176		4,203,294	(2,881)
Total assets			7,654,017		7,788,296	134,279

(Unit: thousand yen)

Account	*	As of February 28, 2007		As of February 29, 2008		Difference
		Amount	%	Amount	%	Amount
<b>Liabilities</b>						
<b>I. Current liabilities</b>						
1. Trade notes and accounts payable		1,107,419		958,859		
2. Short-term borrowings	*1	965,710		1,228,150		
3. Current portion of corporate bonds		60,000		60,000		
4. Other accounts payable		438,817		409,014		
5. Accrued income taxes		-		15,539		
6. Contingent loss reserve		-		33,332		
7. Others		358,304		315,640		
<b>Total current liabilities</b>		<b>2,930,251</b>	<b>38.3</b>	<b>3,020,536</b>	<b>38.8</b>	<b>90,285</b>
<b>II. Long-term liabilities</b>						
1. Corporate bonds		350,000		290,000		
2. Long-term borrowings	*1	1,970,150		2,222,000		
3. Deferred tax liabilities		13,984		7,790		
4. Allowance for retirement benefits		176,022		161,278		
5. Allowance for directors' retirement benefits		-		347,790		
6. Others		61,643		74,135		
<b>Total long-term liabilities</b>		<b>2,571,800</b>	<b>33.6</b>	<b>3,102,994</b>	<b>39.8</b>	<b>531,194</b>
<b>Total liabilities</b>		<b>5,502,051</b>	<b>71.9</b>	<b>6,123,530</b>	<b>78.6</b>	<b>621,479</b>
<b>Net assets</b>						
<b>I. Shareholders' equity</b>						
1. Common stock		552,749	7.2	552,749	7.1	-
2. Capital surplus		1,052,539	13.8	1,052,539	13.5	-
3. Retained earnings		467,686	6.1	(37,272)	(0.5)	(504,958)
4. Treasury stock		(1,117)	(0.0)	(1,117)	(0.0)	-
<b>Total shareholders' equity</b>		<b>2,071,857</b>	<b>27.1</b>	<b>1,566,898</b>	<b>20.1</b>	<b>(504,958)</b>
<b>II. Valuation and translation adjustments</b>						
1. Unrealized holding gain (loss) on other securities		76,496	1.0	50,891	0.7	(25,605)
2. Deferred hedge gain (loss)		(24,878)	(0.3)	(31,745)	(0.4)	(6,866)
3. Foreign currency translation adjustments		28,490	0.3	78,721	1.0	50,231
<b>Total valuation and translation adjustments</b>		<b>80,108</b>	<b>1.0</b>	<b>97,866</b>	<b>1.3</b>	<b>17,758</b>
<b>Total net assets</b>		<b>2,151,965</b>	<b>28.1</b>	<b>1,664,765</b>	<b>21.4</b>	<b>(487,200)</b>
<b>Total liabilities and net assets</b>		<b>7,654,017</b>	<b>100.0</b>	<b>7,788,296</b>	<b>100.0</b>	<b>134,279</b>

## (2) Consolidated income statements

(Unit: thousand yen)

Account	*	From March 1, 2006 to February 28, 2007		From March 1, 2007 to February 29, 2008		Difference Amount		
		Amount	%	Amount	%			
I. Sales			7,103,935	100.0		7,724,525	100.0	620,589
II. Cost of sales	*2		5,881,587	82.8		6,496,770	84.1	615,183
Gross profits			1,222,348	17.2		1,227,754	15.9	5,406
III. SG&A expenses	*1,2		964,766	13.6		1,081,232	14.0	116,465
Operating income			257,581	3.6		146,522	1.9	(111,058)
IV. Non-operating income								
1. Interest income		440			1,202			
2. Dividend income		6,510			7,356			
3. Rent income		4,589			5,042			
4. Foreign exchange gain		108,028			5,290			
5. Others		35,932	155,501	2.2	31,447	50,339	0.6	(105,162)
V. Non-operating expenses								
1. Interest expenses		90,349			98,440			
2. Commissions paid		38,500			30,500			
3. Others		21,834	150,684	2.1	18,023	146,963	1.9	(3,720)
Ordinary income			262,398	3.7		49,898	0.6	(212,500)
VI. Extraordinary income								
1. Prior-year adjustment		16,936			-			
2. Gains on sales of fixed assets	*3	55,974	72,911	1.0	160	160	0.0	(72,750)
VII. Extraordinary losses								
1. Losses on sales of fixed assets	*4	311			-			
2. Losses on disposal of fixed assets	*5	21,047			14,103			
3. Directors' retirement benefits		-			155,300			
4. Provision of allowance for prior-year directors' retirement benefits		-			319,270			
5. Impairment losses	*6	877,257			-			
6. Provision for contingent loss reserve	*7	-	898,616	12.6	32,190	520,863	6.7	(377,753)
Loss before income taxes			563,306	(7.9)		470,803	(6.1)	92,502
Current income taxes		26,030			21,465			
Adjustment to prior-year income taxes		(12,172)			-			
Deferred income taxes		10,924	24,781	0.4	12,689	34,154	0.4	9,372
Net loss			588,088	(8.3)		504,958	(6.5)	83,129

## (3) Consolidated statement of changes in shareholders' equity

Previous fiscal year (March 1, 2006 – February 28, 2007)

(Unit: thousand yen)

	Shareholders' equity				
	Common stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity
Balance as of February 28, 2006	552,749	1,052,539	1,098,949	(737)	2,703,499
Changes in the current fiscal year					
Dividend of surplus (Note)			(43,174)		(43,174)
Net loss			(588,088)		(588,088)
Acquisition of treasury stock				(379)	(379)
Changes (net) in items other than shareholders' equity					
Total changes in the current fiscal year	-	-	(631,262)	(379)	(631,641)
Balance as of February 28, 2007	552,749	1,052,539	467,686	(1,117)	2,071,857

	Valuation and translation adjustments				Total net assets
	Unrealized holding gain (loss) on other securities	Deferred hedge gain (loss)	Foreign currency translation adjustments	Total valuation and translation adjustments	
Balance as of February 28, 2006	74,747	-	24,076	98,824	2,802,323
Changes in the current fiscal year					
Dividend of surplus (Note)					(43,174)
Net loss					(588,088)
Acquisition of treasury stock					(379)
Changes (net) in items other than shareholders' equity	1,748	(24,878)	4,413	(18,716)	(18,716)
Total changes in the current fiscal year	1,748	(24,878)	4,413	(18,716)	(650,358)
Balance as of February 28, 2007	76,496	(24,878)	28,490	80,108	2,151,965

(Note) Appropriation of earnings resolved at the annual general meeting of shareholders in May 2006.

Current fiscal year (March 1, 2007 – February 29, 2008)

(Unit: thousand yen)

	Shareholders' equity				
	Common stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity
Balance as of February 28, 2007	552,749	1,052,539	467,686	(1,117)	2,071,857
Changes in the current fiscal year					
Net loss			(504,958)		(504,958)
Changes (net) in items other than shareholders' equity					
Total changes in the current fiscal year	-	-	(504,958)	-	(504,958)
Balance as of February 29, 2008	552,749	1,052,539	(37,272)	(1,117)	1,566,898

	Valuation and translation adjustments				Total net assets
	Unrealized holding gain (loss) on other securities	Deferred hedge gain (loss)	Foreign currency translation adjustments	Total valuation and translation adjustments	
Balance as of February 28, 2007	76,496	(24,878)	28,490	80,108	2,151,965
Changes in the current fiscal year					
Net loss					(504,958)
Changes (net) in items other than shareholders' equity	(25,605)	(6,866)	50,231	17,758	17,758
Total changes in the current fiscal year	(25,605)	(6,866)	50,231	17,758	(487,200)
Balance as of February 29, 2008	50,891	(31,745)	78,721	97,866	1,664,765

## (4) Consolidated cash flow statements

(Unit: thousand yen)

		From March 1, 2006 to February 28, 2007	From March 1, 2007 to February 29, 2008
Account	*	Amount	Amount
<b>I. Cash flows from operating activities</b>			
Loss before income taxes		(563,306)	(470,803)
Depreciation		288,017	325,458
Impairment losses		877,257	-
Increase in contingent loss reserve		-	32,190
Decrease in allowance for retirement benefits		(25,594)	(20,668)
Increase in allowance for directors' retirement benefits		-	347,790
Decrease in allowance for doubtful accounts		(1,987)	(5,011)
Interest and dividend income		(6,951)	(8,559)
Interest expenses		90,349	98,440
Gain on sales of tangible fixed assets		(55,974)	(160)
Losses on sales of intangible fixed assets		311	-
Losses on disposal of tangible fixed assets		21,047	14,103
Directors' retirement benefits		-	155,300
Decrease (increase) in trade receivable		(112,042)	55,969
Increase in inventories		(65,540)	(148,352)
Increase (decrease) in trade payable		138,524	(160,481)
Increase (decrease) in accrued consumption taxes		17,643	(6,727)
Increase (decrease) in other current liabilities		57,025	(13,860)
Others		(5,400)	(35,756)
Subtotal		653,378	158,869
Interests and dividends received		6,755	8,303
Interests paid		(81,258)	(86,956)
Directors' retirement benefits paid		-	(155,300)
Income taxes refund (paid)		(63,926)	951
Net cash provided by (used in) operating activities		514,948	(74,131)
<b>II. Cash flows from investing activities</b>			
Payment for time deposits		(320,500)	(320,500)
Withdrawal of time deposits		320,500	320,500
Purchases of tangible fixed assets		(327,890)	(391,705)
Proceeds from sales of tangible fixed assets		294,913	160
Purchases of intangible fixed assets		(7,369)	(1,927)
Proceeds from sales of intangible fixed assets		11,068	-
Purchases of investment securities		(1,385)	(1,574)
Proceeds from collection of long-term loans receivable		430	450
Others		-	160
Net cash used in investing activities		(30,234)	(394,436)
<b>III. Cash flows from financing activities</b>			
Proceeds from long-term borrowings		1,000,000	1,150,000
Repayment of long-term borrowings		(1,084,785)	(635,710)
Redemption of corporate bonds		(290,000)	(60,000)
Acquisition of treasury stock		(379)	-
Payment of dividends		(43,174)	-
Net cash provided by (used in) financing activities		(418,339)	454,290
<b>IV. Effect of exchange rate changes on cash and cash equivalents</b>		14,347	8,568
<b>V. Increase (decrease) in cash and cash equivalents</b>		80,722	(5,709)
<b>VI. Cash and cash equivalents at beginning of year</b>		498,903	579,626
<b>VII. Cash and cash equivalents at end of period</b>	*	579,626	573,916

**Significant Items in Preparing Consolidated Financial Statements**

Item	From March 1, 2006 to February 28, 2007	From March 1, 2007 to February 29, 2008
1. Scope of consolidation	There is a consolidated subsidiary: THEPENIER PHARMA INDUSTRIE S.A.	Same as on the left.
2. Subject to equity method	Not applicable. The Company does not have any non-consolidated subsidiaries or affiliates.	Same as on the left.
3. Accounting period of consolidated subsidiary	The consolidated subsidiary's fiscal year ends on December 31. Financial statements of the consolidated subsidiary as of the consolidated subsidiary's balance sheet date are used in the preparation of consolidated financial statements. Appropriate adjustments are made for significant transactions during the periods from the balance sheet date of the consolidated subsidiary and the balance sheet date of the consolidated financial statements.	Same as on the left.
4. Accounting standards (1) Valuation basis and valuation method of significant assets	<p>(1) Securities Other Securities Marketable securities: Market value method on market prices at the closing date. (Unrealized gain or loss is included in net assets. Cost of securities sold is determined by the moving-average method.) Non-marketable securities: Stated at cost, cost being determined by moving average method.</p> <p>(2) Derivatives Market value method.</p> <p>(3) Inventories Finished products, semiprocessed goods and work in process: Stated at cost, cost being determined by the period-average method. Raw materials: Stated at cost, cost being determined by the monthly-average method. Supplies: Stated at cost, cost being determined by the last purchase price method.</p>	<p>(1) Securities Other Securities Marketable securities: Same as on the left.</p> <p>Non-marketable securities: Same as on the left.</p> <p>(2) Derivatives Same as on the left.</p> <p>(3) Inventories Finished products, semiprocessed goods and work in process: Same as on the left.</p> <p>Raw materials: Same as on the left.</p> <p>Supplies: Same as on the left.</p>
(2) Depreciation and amortization of significant assets	<p>(1) Tangible fixed assets The Company computes depreciation of tangible fixed assets by the declining-balance method. However, depreciation on buildings (excluding attached structures) acquired on and after April 1, 1998 is computed by the straight-line method. Overseas subsidiary computes depreciation by the straight-line or declining-balance method in accordance with the accounting standards generally accepted in the country of its domicile. Useful life for major item is as follows: Buildings and structures 10-47 years Machinery and vehicles 4-9 years Tool, furniture and fixtures 5-15 years</p>	<p>(1) Tangible fixed assets The Company computes depreciation of tangible fixed assets by the declining-balance method. However, depreciation on buildings (excluding attached structures) acquired on and after April 1, 1998 is computed by the straight-line method. Overseas subsidiary computes depreciation by the straight-line or declining-balance method in accordance with the accounting standards generally accepted in the country of its domicile. Useful life for major item is as follows: Buildings and structures 10-47 years Machinery and vehicles 4-9 years Tool, furniture and fixtures 5-15 years</p>

Item	From March 1, 2006 to February 28, 2007	From March 1, 2007 to February 29, 2008
<p>(3) Accounting for deferred assets</p> <p>(4) Recognition standards for significant reserves</p>	<p>(2) Intangible fixed assets The Company computes amortization of intangible fixed assets by the straight-line method. The development costs of software intended for internal use are amortized over an expected useful life of five years by the straight-line method. Overseas subsidiary computes amortization of intangible fixed assets by the straight-line method in accordance with the accounting standards generally accepted in the country of its domicile.</p> <p>(3) Long-term prepaid expenses Straight-line method.</p> <p>Bond issue expenses are amortized as accrued.</p> <p>(1) Allowances for doubtful accounts To prepare for credit losses on receivables, the Company provides allowances equal to the estimated amount of uncollectible receivables for general receivables based on the historical write-off ratio, and bad receivables based on a case-by-case determination of collectibility.</p> <p>(2) Allowance for retirement benefits To provide for employees' retirement benefits, the Company books amounts deemed to have accrued at the end of fiscal year, based on the projected benefit obligation and the pension fund assets as of the end of the current fiscal year. Actuarial gain or loss is amortized in the year following the year in which the gain or loss is recognized primarily by the straight-line method over a period of ten years which falls within the average remaining years of service of the employees.</p> <p>(3) _____</p>	<p>(Change in accounting policy) Due to the revision of the Corporation Tax Law, the Company computes depreciation of tangible fixed assets purchased on and after April 1, 2007 by the revised standard from the current fiscal year. The effect of this change on profit/loss is insignificant.</p> <p>(2) Intangible fixed assets Same as on the left.</p> <p>(3) _____</p> <p>_____</p> <p>(1) Allowances for doubtful accounts Same as on the left.</p> <p>(2) Allowance for retirement benefits Same as on the left.</p> <p>(3) Allowance for directors' retirement benefits To provide for directors' retirement benefits, the Company provides allowances for the aggregate amount payable at the end of the fiscal year pursuant to the company's rules on directors' retirement benefits.</p>

Item	From March 1, 2006 to February 28, 2007	From March 1, 2007 to February 29, 2008
(5) Translation of principal foreign currency-denominated assets and liabilities	<p>(4) _____</p> <p>Foreign currency-denominated monetary assets and liabilities are translated into yen at the spot exchange rate in effect on the balance sheet date. Exchange gain or loss is accounted as income or loss. The balance sheet accounts of overseas subsidiary are also translated into yen at the spot exchange rate in effect on the balance sheet date, and revenue and expenses are translated into yen at the average exchange rate for the current fiscal year. Translation adjustments are stated as a component of foreign exchange translation adjustment in the net assets.</p>	<p>(Change in accounting policy)</p> <p>In prior fiscal years, directors' retirement benefits have been recognized as expenses upon payment. Assuming that shareholder approval for the applicable resolution is received at the annual general meeting of shareholders to be held in May 2008, the Company plans to terminate its monetary benefit system for directors. The Board of Directors approved a resolution on February 22, 2008 to pay directors' retirement benefits applicable to the period served until the termination date upon retirement of the eligible directors. Due to this decision, the total amount of accrued directors' retirement benefits for the period served as of February 29, 2008, which is 347,790 thousand yen, was recorded as an allowance for directors' retirement benefits. In addition, the portion of this allowance applicable to prior fiscal years was recognized as an extraordinary loss of 319,270 thousand yen and the portion of this allowance applicable to the fiscal year that ended on February 29, 2008, which is 28,520 thousand yen, was included in SG&amp;A expenses for this fiscal year.</p> <p>Compared with the previous accounting method, these actions reduced operating income and ordinary income by 28,520 thousand yen and increased the loss before income taxes by 347,790 thousand yen.</p> <p>As is explained above, this change was made because of the resolution approved by the Company's Board of Directors in February 2008 and does not apply to consolidated financial statements for the first half of the fiscal year. First half operating income and ordinary income are 13,020 thousand yen higher and the loss before income taxes is 332,290 thousand yen less than if these changes had been applied to the first half financial statements.</p> <p>The effect on segment operations is shown in the "Geographical segment information, Note 4"</p> <p>(4) Contingent loss reserve</p> <p>This reserve is based on reasonable estimates of potential losses as required in order to prepare for contingencies that may occur in the future.</p> <p style="text-align: center;">Same as on the left.</p>

Item	From March 1, 2006 to February 28, 2007	From March 1, 2007 to February 29, 2008
(6) Accounting treatment for significant lease transactions	Finance leases, other than those which are deemed to transfer the ownership of the leased assets to the lessees, are accounted for by a method similar to that applicable to ordinary finance lease transactions.	Same as on the left.
(7) Accounting method of significant hedges	<p>1) Hedge accounting Deferred hedge accounting. However, short-cut method is used for currency option contracts in the cases where necessary conditions are met.</p> <p>2) Means and objects of hedging Means of hedging: Interest rate swaps, currency options Objects of hedging: Borrowings, foreign currency-denominated monetary liabilities and scheduled foreign currency-denominated monetary transactions.</p> <p>3) Policy on hedging The Company uses financial derivative transactions to reduce risk from fluctuations in interest rates and risks from fluctuations in foreign currency exchange. All derivative transactions the Company enters into comply with the Company's internal "Rules on Derivative Transactions and Risk Management."</p> <p>4) Assessing the effectiveness of a hedge The Company primarily assesses the effectiveness for hedging the risk of changes in cash flows resulting from fluctuations in market interest rates on borrowings by rate analysis of the sum total of price fluctuation involving hedging instrument, that is, interest rate swap transactions, and the sum total of interest rate changes on borrowings. Effectiveness is assessed at least once every six months, including the balance sheet date. However, effectiveness of foreign currency options accounted by the short-cut method is not assessed.</p>	<p>1) Hedge accounting Deferred hedge accounting.</p> <p>2) Means and objects of hedging Means of hedging: Interest rate swaps,  Objects of hedging: Borrowings</p> <p>3) Policy on hedging The Company uses financial derivative transactions to reduce risk from fluctuations in interest rates and risks from fluctuations in foreign currency exchange. All derivative transactions the Company enters into comply with the Company's internal "Rules on Derivative Transactions and Risk Management."</p> <p>4) Assessing the effectiveness of a hedge The Company primarily assesses the effectiveness for hedging the risk of changes in cash flows resulting from fluctuations in market interest rates on borrowings by rate analysis of the sum total of price fluctuation involving hedging instrument, that is, interest rate swap transactions, and the sum total of interest rate changes on borrowings. Effectiveness is assessed at least once every six months, including the balance sheet date.</p>
(8) Other important accounting items	Accounting treatment for consumption taxes Consumption taxes are accounted by the tax-exclusion method. Non-deductible consumption taxes are charged to income in the year in which it is recognized.	Accounting treatment for consumption taxes Consumption taxes are accounted by the tax-exclusion method.
5. Asset and liability valuations of consolidated subsidiary	Asset and liability valuations of consolidated subsidiary are based on the whole market value method.	Same as on the left.
6. Definition of cash in cash flow statements	For the purpose of consolidated cash flow statements, cash and cash equivalents consist of vault cash, deposits that can be withdrawn on demand, and short-term investments, with original maturities of three months or less, that are readily convertible to known amounts of cash and present insignificant risk of change in value.	Same as on the left.

**Changes in Significant Items in Preparing Consolidated Financial Statements**

From March 1, 2006 to February 28, 2007	From March 1, 2007 to February 29, 2008
<p>(Accounting Standard for Impairment of Fixed Assets) Effective from the current fiscal year, the Company has adopted “Accounting Standards for the Presentation of the Impairment of Fixed Assets,” (Business Accounting Council, August 9, 2002) and “Guidance for Accounting Standards for Impairment of Fixed Assets” (ASBJ Guidance No. 6: Accounting Standards Board of Japan, October 31, 2003). The effect of this change was to increase operating income by 6,559 thousand yen, ordinary income by 5,990 thousand yen, and loss before income taxes by 871,266 thousand yen. The impact on segment information can be found in applicable portions of this report. The amounts of impairment losses are directly deducted from the corresponding carrying amounts of assets, in accordance with the revised standards for the consolidated financial statements.</p>	<p style="text-align: center;">—————</p>
<p>(Accounting Standard for Presentation of Net Assets on Balance Sheet) Effective from the current fiscal year, the Company has adopted “Accounting Standard for Presentation of Net Assets on Balance Sheet” (ASBJ Statement No. 5, December 9, 2005) and “Guidance for Presentation of Net Assets on Balance Sheet” (ASBJ Guidance No. 8, December 9, 2005). Under the former accounting standard, amounts equivalent to “Total shareholders’ equity” totaled 2,176,844 thousand yen. Due to this revision, net assets in the balance sheet for the current fiscal year are presented based on the revised standard.</p>	<p style="text-align: center;">—————</p>

**Reclassifications**

From March 1, 2006 to February 28, 2007	From March 1, 2007 to February 29, 2008
<p>(Consolidated balance sheets) Effective from the current fiscal year, “Other accounts payable” included in “Other” in prior periods, is reclassified and presented as a separate line item, given that it now exceeds 5/100 of total liabilities and net assets. In the previous fiscal year, “Other accounts payable” amounted to 353,088 thousand yen.</p>	<p style="text-align: center;">—————</p>

## Notes

## Notes to consolidated balance sheets

(Unit: thousand yen)

As of February 28, 2007	As of February 29, 2008
*1. Assets pledged as collateral and corresponding liabilities	*1. Assets pledged as collateral and corresponding liabilities
(1) Assets pledged as collateral are as follows:	(1) Assets pledged as collateral are as follows:
Cash and deposits	252,500
Buildings and structures	901,039
Land	1,330,899
Investment securities	193,539
Total	2,677,978
(2) Liabilities corresponding to assets pledged as collateral:	(2) Liabilities corresponding to assets pledged as collateral:
Short-term borrowings	290,710
Long-term borrowings	630,150
Total	920,860
2. Syndicated credit facility and term loan agreement	2. Syndicated credit facility and term loan agreement
For the purpose of obtaining flexibility and stability in the procurement of funds as well as to diversify funding sources, the Company used a syndicate of five banks to establish a credit facility and term loan agreement. Loans outstanding as of February 28, 2007 under these agreements were as follows.	For the purpose of obtaining flexibility and stability in the procurement of funds as well as to diversify funding sources, the Company used a syndicate of five banks to establish a credit facility and term loan agreement. Loans outstanding as of February 29, 2008 under these agreements were as follows.
Credit facility credit total	1,000,000
Credit used	330,000
Credit available	670,000
Term loan credit limit	1,300,000
Credit used	350,000
Credit available	950,000
(Note) Financial covenants	(Note) Financial covenants
Of the agreements, certain covenants were applied to these below.	Of the agreements, certain covenants were applied to these below.
1) Net assets on the consolidated and non-consolidated balance sheets at the end of each fiscal year must be at least 80% of total shareholders' equity at the end of February 2006. (However, deductions for losses resulting from asset impairment accounting applied to fixed assets in Kita-ibaraki and Hanegi can be excluded.)	1) Net assets on the consolidated and non-consolidated balance sheets at the end of each fiscal year must be at least 80% of total shareholders' equity at the end of February 2007. (However, deductions for losses resulting from asset impairment accounting applied to fixed assets in Kita-ibaraki can be excluded.)
2) The Company must not report an ordinary loss on the consolidated or non-consolidated income statements in two consecutive fiscal years.	2) The Company must not report an ordinary loss on the consolidated or non-consolidated income statements in two consecutive fiscal years.

## Notes to consolidated income statements

(Unit: thousand yen)

From March 1, 2006 to February 28, 2007	From March 1, 2007 to February 29, 2008
*1. Significant components and corresponding amounts of selling, general and administrative expenses	*1. Significant components and corresponding amounts of selling, general and administrative expenses
Officers' salaries and bonuses 167,641	Officers' salaries and bonuses 193,507
Employees' salaries and allowances 143,068	Employees' salaries and allowances 145,080
Employees' bonuses 62,949	Employees' bonuses 60,403
Retirement benefits 13,212	Retirement benefits 14,259
Depreciation 18,274	Provision of allowance for directors' retirement benefits 28,520
Commissions paid 126,297	Depreciation 17,943
Provision of allowance for doubtful accounts 7,714	Commissions paid 150,992
	Provision of allowance for doubtful accounts 26
*2. Total R&D expenses 427,471	*2. Total R&D expenses 426,853
*3. Significant components of gains on sales of fixed assets	*3. Significant components of gains on sales of fixed assets
Buildings and structures 1,846	Machinery and vehicles 160
Tool, furniture and fixtures 329	
Land 53,798	
Total 55,974	
*4. Significant components of losses on sales of fixed assets	*4
Intangible fixed assets 311	_____
*5. Significant components of losses on disposal of fixed assets	*5. Significant components of losses on disposal of fixed assets
Buildings and structures 15,204	Buildings and structures 3,540
Machinery and vehicles 3,984	Machinery and vehicles 7,406
Tool, furniture and fixtures 1,858	Tool, furniture and fixtures 3,156
Total 21,047	Total 14,103
*6. Impairment losses	*6
Impairment losses on fixed assets at the Group for the current fiscal year as follows.	_____
Nippon Shikizai, Inc.	
Location	Setagaya-ward, Tokyo
Use of asset	Welfare facilities
Account	Land, buildings
Impairment loss	353,231 thousand yen
Location	Kita-Ibaraki-city, Ibaraki prefecture
Use of asset	Pre-construction site of factory
Account	Land, etc
Impairment loss	387,533 thousand yen
THEPENIER PHARMA INDUSTRIE S.A.	
Location	Mortagne, France
Use of asset	Cosmetic business assets
Account	Land, buildings, etc.
Impairment loss	109,285 thousand yen
Location	Mortagne, France
Use of asset	Pharmaceutical business assets
Account	Land
Impairment loss	27,206 thousand yen

From March 1, 2006 to February 28, 2007	From March 1, 2007 to February 29, 2008
<p>Assets in business use are evaluated collectively based on the grouping used in managerial accounting practices at the Group while idle assets are respectively evaluated.</p> <p>The Company's assets among those listed above are idle with their evaluations considerably deteriorated below the book values. Therefore they were devalued to their collectible amounts after an aggregate variance of 740,765 thousand yen was booked as impairment loss to the account of extraordinary losses pertaining thereto. The above listed assets of THEPENIER PHARMA INDUSTRIE S.A. were devalued to their collectible amounts because their productivity or physical evaluations were well below the book values, and an aggregate variance of 136,491 thousand yen was booked as impairment loss to the account of extraordinary losses pertaining thereto.</p> <p>For information, a collectible amount used above is net proceeds from sale of an asset in question estimated by a real estate appraiser, etc.</p> <p>*7. _____</p>	<p>*7. Provision for contingent loss reserve</p> <p>An amount has been posted that is equal to estimated losses that may occur in the future due to quality problems concerning certain mouthwashes manufactured by a consolidated subsidiary.</p>

**Notes to consolidated statement of changes in shareholders' equity**

Previous fiscal year (March 1, 2006 – February 28, 2007)

## 1. Type and number of outstanding shares and treasury stock

	Number of shares as of Feb. 28, 2006 (Shares)	Increase during the current fiscal year (Shares)	Decrease during the current fiscal year (Shares)	Number of shares as of Feb. 28, 2007 (Shares)
Outstanding shares				
Common shares	4,318,444	-	-	4,318,444
Total	4,318,444	-	-	4,318,444
Treasury stock				
Common shares	1,000	800	-	1,800
Total	1,000	800	-	1,800

Note: Number of treasury stock increased by 800 common shares was due to the acquisition of odd lot shares.

## 2. Dividends

## (1) Dividends payment

Resolution	Type of share	Total amount of dividend (Thousand yen)	Dividend per share (Yen)	Record date	Effective date
Annual general meeting of shareholders on May 26, 2006	Common shares	43,174	10	February 28, 2006	May 27, 2006

## (2) Dividends with a record date in the current fiscal year but an effective date in the following fiscal year

Not applicable.

Current fiscal year (March 1, 2007 – February 29, 2008)

## 1. Type and number of outstanding shares and treasury stock

	Number of shares as of Feb. 28, 2007 (Shares)	Increase during the current fiscal year (Shares)	Decrease during the current fiscal year (Shares)	Number of shares as of Feb. 29, 2008 (Shares)
Outstanding shares				
Common shares	4,318,444	-	-	4,318,444
Total	4,318,444	-	-	4,318,444
Treasury stock				
Common shares	1,800	-	-	1,800
Total	1,800	-	-	1,800

## 2. Dividends

## (1) Dividends payment

Not applicable.

## (2) Dividends with a record date in the current fiscal year but an effective date in the following fiscal year

Not applicable.

**Notes to consolidated cash flow statements**

(Unit: thousand yen)

From March 1, 2006 to February 28, 2007	From March 1, 2007 to February 29, 2008
*Reconciliation of balance sheet items to cash and cash equivalents in consolidated cash flow statements	*Reconciliation of balance sheet items to cash and cash equivalents in consolidated cash flow statements
Cash and deposits 862,335	Cash and deposits 856,535
Cash and term deposits with maturities longer than three months (280,500)	Cash and term deposits with maturities longer than three months (280,500)
Special deposit (2,208)	Special deposit (2,118)
Cash and cash equivalents 579,626	Cash and cash equivalents 573,916

## Accounting for Leases

(Unit: thousand yen)

From March 1, 2006 to February 28, 2007	From March 1, 2007 to February 29, 2008
Finance lease transactions other than those in which the title of the leased property is transferred to the lessee.	Finance lease transactions other than those in which the title of the leased property is transferred to the lessee.
1. Acquisition cost, accumulated depreciation and year-end balance equivalents of the leased property.	1. Acquisition cost, accumulated depreciation and year-end balance equivalents of the leased property.
Machinery and vehicles:	Machinery and vehicles:
Acquisition cost	257,633
Accumulated depreciation	104,141
Year-end balance	153,491
Tool, furniture and fixture	Tool, furniture and fixture
Acquisition cost	132,993
Accumulated depreciation	50,926
Year-end balance	82,067
Intangible fixed assets, others:	Intangible fixed assets, others:
Acquisition cost	192,367
Accumulated depreciation	28,927
Year-end balance	163,439
Total:	Total:
Acquisition cost	582,993
Accumulated depreciation	183,996
Year-end balance	398,997
Note: Acquisition cost equivalents include amounts applicable to interest since the outstanding balance of lease commitments at year-end are insignificant in the context of tangible fixed assets.	Note: Same as on the left.
2. Outstanding lease commitments at year-end	2. Outstanding lease commitments at year-end
Within one year	109,601
Over one year	289,396
Total	398,997
Note: Outstanding balance of lease commitments at period-end include amounts applicable to interest since the outstanding balance of lease commitments at year-end are insignificant in the context of tangible fixed assets.	Note: Same as on the left.
3. Lease payments and depreciation equivalents	3. Lease payments and depreciation equivalents
Lease payments	101,457
Depreciation equivalents	101,457
4. Calculation of depreciation equivalents	4. Calculation of depreciation equivalents
Depreciation is calculated based on the straight-line method, assuming the lease period to be the useful life and a residual value of zero.	Same as on the left.

**Securities**

## 1. Securities with market value classified as "Other Securities"

(Unit: thousand yen)

	Security	As of February 28, 2007			As of February 29, 2008		
		Acquisition cost	Carrying value	Valuation gain/loss	Acquisition cost	Carrying value	Valuation gain/loss
Securities whose carrying value exceeds their acquisition cost	(1) Equity	111,321	240,104	128,782	99,193	182,931	83,738
	(2) Other	-	-	-	-	-	-
	Subtotal	111,321	240,104	128,782	99,193	182,931	83,738
Securities whose carrying value do not exceed their acquisition cost	(1) Equity	-	-	-	13,542	12,268	(1,274)
	(2) Other	-	-	-	-	-	-
	Subtotal	-	-	-	13,542	12,268	(1,274)
Total		111,321	240,104	128,782	112,736	195,199	82,463

Note:

As of February 28, 2007	As of February 29, 2008
Except for securities whose price is expected to recover, securities whose value has declined by more than 50% from the book value are written down. In the case of securities whose value has declined by 30% to 50% from the book value are written down if their price is not expected to recover.	Same as on the left.

## 2. Securities without market quotations

(Unit: thousand yen)

Security	As of February 28, 2007	As of February 29, 2008
	Carrying value	Carrying value
Other securities Unlisted stock	9,456	9,456

**Derivatives**

From March 1, 2006 to February 28, 2007	From March 1, 2007 to February 29, 2008
<p>1. Financial derivative transactions</p> <p>(1) Description of transactions The derivative transactions the Company uses include interest rate swap transactions and currency options.</p> <p>(2) Transaction policy The Company uses interest rate derivatives to reduce its exposure to market risks from fluctuations in interest rates and in foreign currency exchange. The Company does not hold or issue financial derivative instruments for trading purposes.</p> <p>(3) Purpose of derivative transactions The Company uses financial derivative transactions to hedge its exposure to market risks from fluctuations in the interest rate on borrowings and to hedge its exposure to exchange rate fluctuations on foreign currency-denominated monetary liabilities. The transactions are accounted by the hedge accounting method.</p> <p>1) Hedging instrument and risk hedged Hedging instrument: Interest rate swaps, currency options Risk hedged: Borrowings, foreign currency-denominated monetary liabilities and scheduled foreign currency-denominated monetary transactions.</p> <p>2) Policy on hedging The Company uses financial derivative transactions to reduce risk from fluctuations in interest rates and risks from fluctuations in foreign currency exchange. All derivative transactions the Company enters into comply with the Company's internal "Rules on Derivative Transactions and Risk Management."</p> <p>3) Assessing the effectiveness of a hedge The Company primarily assesses the effectiveness for hedging the risk of changes in cash flows resulting from fluctuations in market interest rates on borrowings by rate analysis of the sum total of price fluctuation involving hedging instrument, that is, interest rate swap transactions, and the sum total of interest rate changes on borrowings. Effectiveness is assessed at least once every six months, including the balance sheet date. However, effectiveness of foreign currency options accounted by the short-cut method is not assessed.</p> <p>(4) Transaction risk The Company considers that there is no significant risk arising from counter party default. The Company's counter parties are major domestic banks with high credit ratings.</p> <p>(5) Risk management All derivative transactions are executed and managed in accordance with internal rules on derivative transactions which define transaction authority and position limit. The department in charge of executing and managing derivative transactions must obtain prior approval of the executive authorized to approve such transactions.</p> <p>2. Information on market values Information on contract values and notional principal amounts is not presented since the Company applies the hedge accounting method to account for interest rate swap transactions.</p>	<p>1. Financial derivative transactions</p> <p>(1) Description of transactions The derivative transactions the Company uses include interest rate swap transactions.</p> <p>(2) Transaction policy The Company uses interest rate derivatives to reduce its exposure to market risks from fluctuations in interest rates. The Company does not hold or issue financial derivative instruments for trading purposes.</p> <p>(3) Purpose of derivative transactions The Company uses financial derivative transactions to hedge its exposure to market risks from fluctuations in the interest rate on borrowings. The transactions are accounted by the hedge accounting method.</p> <p>1) Hedging instrument and risk hedged Hedging instrument: Interest rate swaps Risk hedged: Borrowings</p> <p>2) Policy on hedging The Company uses financial derivative transactions to reduce risk from fluctuations in interest rates and risks from fluctuations in foreign currency exchange. All derivative transactions the Company enters into comply with the Company's internal "Rules on Derivative Transactions and Risk Management."</p> <p>3) Assessing the effectiveness of a hedge The Company primarily assesses the effectiveness for hedging the risk of changes in cash flows resulting from fluctuations in market interest rates on borrowings by rate analysis of the sum total of price fluctuation involving hedging instrument, that is, interest rate swap transactions, and the sum total of interest rate changes on borrowings. Effectiveness is assessed at least once every six months, including the balance sheet date.</p> <p>(4) Transaction risk Same as on the left.</p> <p>(5) Risk management Same as on the left.</p> <p>2. Information on market values Same as on the left.</p>

## Retirement Benefits

### 1. Retirement benefit plans

The Company has defined-benefit plans, that is, a tax-qualified pension plan. The Company also offers an add-on retirement package to employees meeting certain requirements.

In addition to the above, the Company also participates in the Tokyo Cosmetics Industry Employees' Pension Fund (a multi-employer pension plan) and the Kinki Cosmetics Industry Employees' Pension Fund (a multi-employer pension plan).

The overseas subsidiary has defined benefit plans, that is, a lump-sum payment plan.

### 2. Projected benefit obligations and its principal components

(Unit: thousand yen)

	As of February 28, 2007	As of February 29, 2008
(1) Projected benefit obligation	(605,891)	(586,914)
(2) Plan assets at fair value	383,719	343,560
(3) Unfunded retirement benefit obligation (1)+(2)	(222,172)	(243,354)
(4) Unrecognized actuarial gain or loss	46,149	82,075
(5) Retirement benefit obligation carried on consolidated balance sheets (3)+(4)	(176,022)	(161,278)
(6) Allowance for retirement benefits	(176,022)	(161,278)

As of February 28, 2007	As of February 29, 2008
Note: In addition to the above pension fund assets, plan assets proportional to the Company's contribution to multi-employer pension plan totaled 962,971 thousand yen.	Note: In addition to the above pension fund assets, plan assets proportional to the Company's contribution to multi-employer pension plan totaled 976,461 thousand yen.

### 3. Retirement benefit expenses

(Unit: thousand yen)

	From March 1, 2006 to February 28, 2007	From March 1, 2007 to February 29, 2008
Retirement benefit expenses	95,373	105,455
(1) Service cost	45,249	44,882
(2) Interest cost	7,031	7,177
(3) Expected rate of return (for subtractions)	(19,367)	(16,883)
(4) Amortization of actuarial differences	6,816	8,131
(5) Contribution to multi-employer pension plan	55,643	62,146

### 4. Assumptions used in accounting for the above plans

	As of February 28, 2007	As of February 29, 2008
(1) Discount rate	1.4%	1.4%
(2) Expected return on assets	5.4%	4.4%
(3) Distribution of estimated retirement benefit obligations	Straight line.	Same as on the left.
(4) Amortization of actuarial differences	10 years	10 years

## Deferred Tax Accounting

(Unit: thousand yen)

As of February 28, 2007	As of February 29, 2008
1. Significant components of deferred tax assets and liabilities	1. Significant components of deferred tax assets and liabilities
Deferred tax assets, current	Deferred tax assets, current
Accrued bonuses in excess of exclusion from expenses 82,894	Accrued bonuses in excess of exclusion from expense: 77,408
Unrealized business place tax and enterprise tax payable 987	Unrealized business place tax and enterprise tax payable 3,399
Unearned income 5,100	Unearned income 4,453
Accrued social insurance premiums 9,863	Accrued social insurance premiums 9,337
Loss on valuation of inventories 657	Loss on valuation of inventories 657
Allowance for doubtful accounts in excess of the maximum amount allowed for inclusion in expenses 1,766	Allowance for doubtful accounts in excess of the maximum amount allowed for inclusion in expenses 676
Deferred hedge gain (loss) 4,509	Deferred hedge gain (loss) 4,039
Other 2,068	Other 1,554
Subtotal deferred tax assets, current 107,849	Subtotal deferred tax assets, current 101,526
Valuation reserve (1,053)	Valuation reserve (1,554)
Total deferred tax assets, current 106,795	Total deferred tax assets, current 99,972
Deferred tax liabilities, current	Deferred tax liabilities, current
Adjustment of allowance for doubtful accounts (40)	Adjustment of allowance for doubtful accounts (40)
Total deferred tax liabilities, current (40)	Total deferred tax liabilities, current (40)
Net deferred tax assets, current 106,754	Net deferred tax assets, current 99,932
Deferred tax assets, non-current	Deferred tax assets, non-current
Unrealized valuation loss on investment securities 13,116	Unrealized valuation loss on investment securities 13,069
Unrealized valuation loss on golf club memberships 9,836	Unrealized valuation loss on golf club memberships 9,836
Liabilities for retirement benefit in excess of the maximum amount allowed for inclusion in expenses 64,065	Liabilities for retirement benefit in excess of the maximum amount allowed for inclusion in expenses 26,054
Allowance for doubtful accounts in excess of the maximum amount allowed for inclusion in expenses 3,155	Liabilities for directors' retirement benefit in excess of the maximum amount allowed for inclusion in expenses 141,202
Impairment losses 157,338	Impairment losses 157,338
Deficit brought forward 34,576	Deferred hedge gain (loss) 17,663
Deferred hedge gain (loss) 12,512	Other 627
Other 2,060	Subtotal deferred tax assets, non-current 365,793
Subtotal deferred tax assets, non-current 296,661	Valuation reserve (321,447)
Valuation reserve (247,369)	Total deferred tax assets, non-current 44,345
Total deferred tax assets, non-current 49,292	Deferred tax liabilities, non-current
Deferred tax liabilities, non-current	Unrealized holding gain (loss) on other securities (31,572)
Unrealized holding gain (loss) on other securities (52,285)	Deferred hedge gain (loss) (5)
Deferred hedge gain (loss) (17)	Total deferred tax liabilities, non-current (31,577)
Buildings at fair value (10,973)	Net deferred tax assets, non-current 12,767
Total deferred tax liabilities, non-current (63,276)	
Net deferred tax liabilities, non-current (13,984)	Deferred tax assets, non-current
	Allowance for retirement benefits in excess of the maximum amount allowed for inclusion in expenses 31,331
	Deficit brought forward 37,372
	Other 569
	Subtotal deferred tax assets, non-current 69,272
	Valuation reserve (69,272)
	Total deferred tax assets, non-current 0
	Deferred tax liabilities, non-current
	Buildings at fair value (7,790)
	Total deferred tax liabilities, non-current (7,790)
	Net deferred tax liabilities, non-current (7,790)

As of February 28, 2007		As of February 29, 2008	
2. Significant components of difference between statutory and effective tax rates.		2. Significant components of difference between statutory and effective tax rates.	
	(%)		(%)
Effective tax rate (Japan)	(40.6)	Effective tax rate (Japan)	(40.6)
(Adjustments)		(Adjustments)	
Entertainment expenses and other items not be included in expenses indefinitely	1.3	Entertainment expenses and other items not be included in expenses indefinitely	1.4
Dividends income and other items not to be included in income indefinitely	(0.2)	Dividends income and other items not to be included in income indefinitely	(0.2)
Per-capita resident tax	1.4	Per-capita resident tax	1.7
Special deduction on R&D expenses	(0.4)	Special deduction on R&D expenses	(0.5)
Difference in tax rates of overseas consolidated subsidiary	2.9	Difference in tax rates of overseas consolidated subsidiary	2.9
Valuation reserve	41.8	Valuation reserve	42.5
Other	(1.8)	Other	0.1
Effective tax rate	<u>4.4</u>	Effective tax rate	<u>7.3</u>

**Stock Options**

Not applicable.

**Business Combinations**

Not applicable.

**Segment Information****Operating segment information**

Previous fiscal year (March 1, 2006 – February 28, 2007)

(Unit: thousand yen)

	Cosmetics	Pharmaceuticals and other products	Total	Eliminations or corporate	Consolidated
I. Sales and operating income and loss					
Sales					
(1) Sales to outside customers	5,706,554	1,397,381	7,103,935	-	7,103,935
(2) Sales and transfers – Inter-segment	-	-	-	-	-
Total	5,706,554	1,397,381	7,103,935	-	7,103,935
Operating expenses	4,989,218	1,343,812	6,333,030	513,323	6,846,353
Operating income	717,335	53,569	770,904	[513,323]	257,581
II. Assets, depreciation, impairment losses and capital expenditures					
Assets	5,466,998	867,192	6,334,191	1,319,825	7,654,017
Depreciation	231,135	50,236	281,371	6,646	288,017
Impairment losses	109,285	27,206	136,491	740,765	877,257
Capital expenditures	379,879	16,298	396,177	1,917	398,095

Notes: 1. Method of segmentation: Segments are based on the type of products handled.

2. Primary operations of the principal operating segments are as follows:

(1) Cosmetics: Foundation, eye shadow, rouge, lipsticks, lip creams, moisturizers and sunscreen lotions

(2) Pharmaceuticals and other products: Econazole, medicinal toothpastes, mouthwashes, ear washes and hygiene products

3. Operating expenses (513,323 thousand yen) included in eliminations or corporate consist primarily of expenses related to the administration divisions, including the General Affairs Division and the Accounting Division.

4. Assets (1,319,825 thousand yen) included in eliminations or corporate consist primarily of surplus funds under management (cash, deposits and securities) at the Company, land for factory and fixed assets of the administration division.

5. Depreciation and capital expenditures include long-term prepaid expenses and their amortization.

6. As mentioned in the section on “Changes in Significant Items in Preparing Consolidated Financial Statements”, effective from the current fiscal year, the Company has adopted “Accounting Standards for the Presentation of the Impairment of Fixed Assets,” (Business Accounting Council, August 9, 2002) and “Guidance for Accounting Standards for Impairment of Fixed Assets” (ASBJ Guidance No. 6, October 31, 2003).

Compared with the previous method, this change reduced assets of cosmetics segment by 117,209 thousand yen, pharmaceuticals and other products by 29,178 thousand yen, elimination or corporate by 387,533 thousand yen and consolidated by 533,921 thousand yen for the current fiscal year.

Current fiscal year (March 1, 2007 – February 29, 2008)

(Unit: thousand yen)

	Cosmetics	Pharmaceuticals and other products	Total	Eliminations or corporate	Consolidated
<b>I. Sales and operating income and loss</b>					
Sales					
(1) Sales to outside customers	6,280,656	1,443,868	7,724,525	-	7,724,525
(2) Sales and transfers – Inter-segment	-	-	-	-	-
Total	6,280,656	1,443,868	7,724,525	-	7,724,525
Operating expenses	5,533,482	1,447,415	6,980,897	597,105	7,578,002
Operating income (loss)	747,174	(3,546)	743,627	[597,105]	146,522
<b>II. Assets, depreciation and capital expenditures</b>					
Assets	5,593,176	877,348	6,470,524	1,317,771	7,788,296
Depreciation	272,179	48,454	320,633	4,825	325,458
Capital expenditures	303,289	17,277	320,567	699	321,267

Notes: 1. Method of segmentation: Segments are based on the type of products handled.

2. Primary operations of the principal operating segments are as follows:

(1) Cosmetics: Foundation, eye shadow, rouge, lipsticks, lip creams, moisturizers and sunscreen lotions

(2) Pharmaceuticals and other products: Econazole, medicinal toothpastes, mouthwashes, ear washes and hygiene products

3. Operating expenses (597,105 thousand yen) included in eliminations or corporate consist primarily of expenses related to the administration divisions, including the General Affairs Division and the Accounting Division.

4. Assets (1,317,771 thousand yen) included in eliminations or corporate consist primarily of surplus funds under management (cash, deposits and securities) at the Company, land for factory and fixed assets of the administration division.

**Geographical segment information**

Previous fiscal year (March 1, 2006 – February 28, 2007)

(Unit: thousand yen)

	Japan	France	Total	Eliminations or corporate	Consolidated
<b>I. Sales and operating income and loss</b>					
Sales					
(1) Sales to outside customers	5,470,037	1,633,897	7,103,935	-	7,103,935
(2) Sales and transfers – Inter-segment	57,285	6,933	64,219	[64,219]	-
Total	5,527,323	1,640,831	7,168,155	[64,219]	7,103,935
Operating expenses	4,678,288	1,713,623	6,391,912	454,441	6,846,353
Operating income (loss)	849,035	(72,792)	776,242	[518,661]	257,581
<b>II. Assets</b>	4,897,511	1,450,617	6,348,128	1,305,888	7,654,017

Notes: 1. Geographical segmentation: By locations of manufacturing facilities.

2. Operating expenses (513,323 thousand yen) included in eliminations or corporate consist primarily of expenses related to the administration divisions, including the General Affairs Division and the Accounting Division.

3. Assets (1,319,825 thousand yen) included in eliminations or corporate consist primarily of surplus funds under management (cash, deposits and securities) at the Company, land for factory and fixed assets of the administration division.

Current fiscal year (March 1, 2007 – February 29, 2008)

(Unit: thousand yen)

	Japan	France	Total	Eliminations or corporate	Consolidated
I. Sales and operating income and loss					
Sales					
(1) Sales to outside customers	6,008,326	1,716,199	7,724,525	-	7,724,525
(2) Sales and transfers – Inter-segment	73,810	4,507	78,318	[78,318]	-
Total	6,082,137	1,720,707	7,802,844	[78,318]	7,724,525
Operating expenses	5,208,230	1,852,202	7,060,433	517,569	7,578,002
Operating income (loss)	873,906	(131,495)	742,411	[595,888]	146,522
II. Assets	5,053,013	1,429,626	6,482,639	1,305,657	7,788,296

Notes: 1. Geographical segmentation: By locations of manufacturing facilities.

2. Operating expenses (597,105 thousand yen) included in eliminations or corporate consist primarily of expenses related to the administration divisions, including the General Affairs Division and the Accounting Division.

3. Assets (1,317,771 thousand yen) included in eliminations or corporate consist primarily of surplus funds under management (cash, deposits and securities) at the Company, land for factory and fixed assets of the administration division.

4. As mentioned in the section on “Changes in Significant Items in Preparing Consolidated Financial Statements”, effective from the current fiscal year, directors’ retirement benefits, charged to income as extraordinary loss as incurred in prior periods, are reclassified and included in selling, general and administrative expenses in the year in which they are recognized.

Compared with the previous method, this change increased operating expenses in Japan by 28,520 thousand yen, and reduced operating income by the same amount.

**Overseas sales**

Previous fiscal year (March 1, 2006 – February 28, 2007)

(Unit: thousand yen)

	Europe	Other areas	Total
I. Overseas sales	1,953,685	99,162	2,052,847
II. Consolidated sales	-	-	7,103,935
III. Share of overseas sales in consolidated sales (%)	27.5	1.4	28.9

Notes: 1. Method of geographical segmentation: Geographical proximity

2. Each segment consists primarily of the following countries or areas

(1) Europe: France, Italy, Britain, Greece, Germany, Belgium, Portugal, Switzerland, and Spain

(2) Other areas: North America, Taiwan, S. Korea, Hong Kong, and Malaysia

3. Overseas sales include sales of the Company and its consolidated subsidiary to customers in countries and areas outside Japan.

Current fiscal year (March 1, 2007 – February 29, 2008)

(Unit: thousand yen)

	Europe	Other areas	Total
I. Overseas sales	1,952,871	124,704	2,077,575
II. Consolidated sales	-	-	7,724,525
III. Share of overseas sales in consolidated sales (%)	25.3	1.6	26.9

Notes: 1. Method of geographical segmentation: Geographical proximity

2. Each segment consists primarily of the following countries or areas

(1) Europe: France, Italy, Britain, Greece, Germany, Belgium, Portugal, and Switzerland

(2) Other areas: North America, Taiwan, S. Korea, Hong Kong, and Malaysia

3. Overseas sales include sales of the Company and its consolidated subsidiary to customers in countries and areas outside Japan.

**Related Party Transactions**

Previous fiscal year (March 1, 2006 - February 28, 2007)

Directors and major individual shareholders

(Unit: thousand yen)

Relationship	Director and immediate relative	Director and immediate relative	Company with majority voting rights owned by director or his immediate relatives	Company with majority voting rights owned by director or his immediate relatives
Name of related party	Kouji Okumura	Tomohiro Tohyama	Quatre Saison (Note 3)	Keiichi Okumura Office (Note 5)
Address	-	-	Minato-ku, Tokyo	Minato-ku, Tokyo
Paid in capital or capital	-	-	10,200	10,000
Description of business or occupation	Shikizai President and Representative Director	Shikizai Auditor and Lawyer of TMI Associates	Casualty insurance agency	Construction design and construction supervision
Voting rights (Owned)	(Owned) Direct: 14.6%	-	(Owned) Direct: 7.6%	-
Relationship	Joint directorship etc.	-	-	Joint directors: 2
	Business relationship	-	-	Insurance-related transactions
Description of transactions	Sale of welfare facilities (Note 1)	Legal fees and legal counsel fees (Note 2)	Payment of insurance premiums (Note 4)	Construction design outsourcing fees and advisory fees (Note 6)
Transaction amount	290,000	9,247	8,635	14,452
Account	-	Account payable-other	-	Account payable-other
Account balance	-	2,942	-	2,291

Notes: Transaction terms or method of determining transaction terms:

1. The sale of welfare facilities is determined based on real estate appraisal value.
2. Legal fees and legal counsel fees are based on the Rules on Compensation of Lawyers established by First Tokyo Lawyers Association and a review of services provided.
3. Quatre Saison is a company wholly and directly owned by President Kouji Okumura and his immediate family.
4. Casualty insurance premiums are based on the insurance premium table.
5. Keiichi Okumura Office is a company with majority voting rights owned by an immediate relative of Shikizai president and representative director Kouji Okumura.
6. Construction design and supervision fees are based on "codes on business responsibility and fees for an architect" established by the Japan Institute of Architects and the work outsourced.
7. The above amounts do not include consumption taxes but year-end balances include consumption taxes.

Current fiscal year (March 1, 2007 - February 29, 2008)

Directors and major individual shareholders

(Unit: thousand yen)

Relationship	Director and immediate relative	Company with majority voting rights owned by director or his immediate relatives	Company with majority voting rights owned by director or his immediate relatives
Name of related party	Tomohiro Tohyama	Quatre Saison (Note 2)	Keiichi Okumura Office (Note 4)
Address	-	Minato-ku, Tokyo	Minato-ku, Tokyo
Paid in capital or capital	-	10,200	10,000
Description of business or occupation	Shikizai Auditor and Lawyer of TMI Associates	Casualty insurance agency	Construction design and construction supervision
Voting rights (Owned)	-	(Owned) Direct: 7.6%	-
Relationship	Joint directorship etc.	-	Joint director: 1
	Business relationship	-	Insurance-related transactions
Description of transactions	Legal fees and legal counsel fees (Note 1)	Payment of insurance premiums (Note 3)	Construction design outsourcing fees and advisory fees (Note 5)
Transaction amount	5,844	975	8,722
Account	Account payable-other	-	Account payable-other
Account balance	1,056	-	89

Notes: Transaction terms or method of determining transaction terms:

1. Legal fees and legal counsel fees are based on the Rules on Compensation of Lawyers established by First Tokyo Lawyers Association and a review of services provided.
2. Quatre Saison is a company wholly and directly owned by President Kouji Okumura and his immediate family.
3. Casualty insurance premiums are based on the insurance premium table.
4. Keiichi Okumura Office is a company with majority voting rights owned by an immediate relative of Shikizai president and representative director Kouji Okumura.
5. Construction design and supervision fees are based on "codes on business responsibility and fees for an architect" established by the Japan Institute of Architects and the work outsourced.
6. The above amounts do not include consumption taxes but year-end balances include consumption taxes.

**Per Share Information**

(Unit: Yen)

From March 1, 2006 to February 28, 2007		From March 1, 2007 to February 29, 2008	
Net assets per share	498.53	Net assets per share	385.66
Net loss per share (basic)	136.21	Net loss per share (basic)	116.98
Net income per share (diluted) is not presented since the Company posted net loss, and has no outstanding dilutive securities.		Same as on the left.	

Note: The following is a reconciliation of net loss per share (basic)

(Unit: thousand yen)

	From March 1, 2006 to February 28, 2007	From March 1, 2007 to February 29, 2008
Net loss	588,088	504,958
Amount not available to common shareholders	-	-
Net loss available to common stock	588,088	504,958
Average number of shares outstanding	4,317,377 shares	4,316,644 shares

**Subsequent Events**

From March 1, 2006 to February 28, 2007	From March 1, 2007 to February 29, 2008
Not applicable.	Not applicable.

\* This financial report is solely a translation of "Kessan Tanshin" (in Japanese, including attachments), which has been prepared in accordance with accounting principles and practices generally accepted in Japan, for the convenience of readers who prefer an English translation.