ANNUAL REPORT 2008

For the year ended March 31, 2008

HANWA CO., LTD.

阪和興業株式会社

Corporate Profile

Since its establishment in 1947, Hanwa has contributed to the development of the Japanese economy as a trading company handling industrial materials, such as steel — the company's leading product — and non-ferrous metals, food products, lumber, machinery, petroleum, chemical products, and cement. Our steel division in particular is equipped with quay and warehouse transportation facilities as well as complete processing sites that enable us to both handle large quantities purchased from major steel manufacturers and to cater to the special needs of our customers. This is why we have long been known in Japan as a "steel trading company."

Recently, with the changes and diversification of the domestic market, we have demonstrated new capabilities as a trading company by handling seafood products, rides for amusement parks, and non-ferrous metal recycling. We have created numerous businesses in these fields that command the top market share. The basic strategies underlying such success are internationalization, business diversification, and value enhancement.

Hanwa's ideal function as a trading company is to be more than just a distributor. Based on our insight of the international market and information-gathering capabilities, we aim to develop new products, as well as coordinate ventures among businesses. As a trading company with such operating skills at our disposal, we will continue to develop new unique businesses.

About the Cover

The Chinese character for the syllable *wa* of Hanwa's name has four meanings in Japanese: Japan, harmony, sum (as in addition) and peace.

These key words capture the essence of Hanwa's ideals: to trade products that meet the needs of customers through a business relationship with the countries of the world, incorporating new ideas into the products to bring peace and harmony to people's lives.

Contents

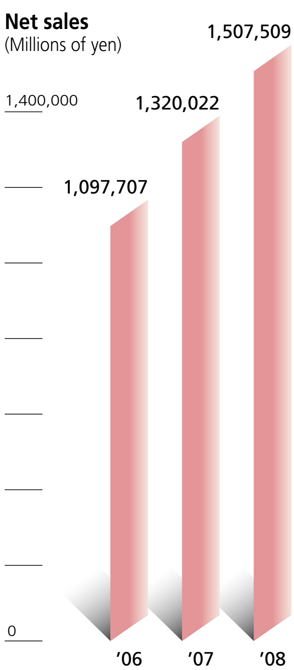
Financial Highlights

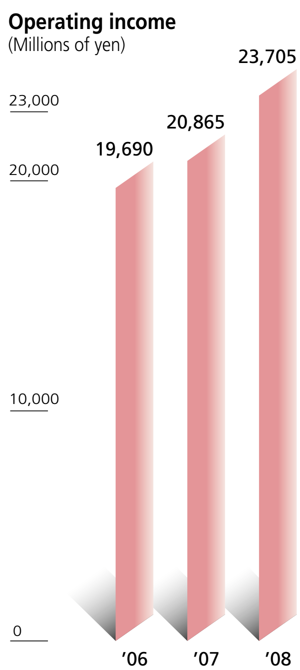
For the years ended March 31, 2008 and 2007

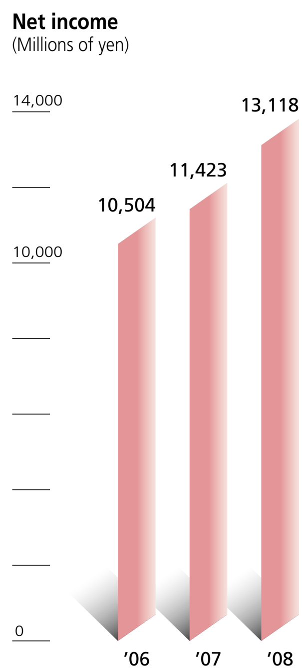
	Millions of yen		Thousands of U.S. dollars	
	2008	2007	**2008**	2007
For the year:				
Net sales	**¥ 1,507,509**	¥ 1,320,022	**$ 15,046,502**	$ 13,175,187
Operating income	**23,705**	20,865	**236,600**	208,254
Net income	**13,118**	11,423	**130,931**	114,013
At year-end:				
Total assets	**¥ 482,014**	¥ 476,179	**$ 4,810,999**	$ 4,752,760
Total net assets	**100,926**	98,254	**1,007,346**	980,677

	Yen		U.S. dollars	
	2008	2007	**2008**	2007
Per share data:				
Net income	**¥ 62.07**	¥ 54.03	**$ 0.620**	$ 0.539
Cash dividends	**12.00**	12.00	**0.120**	0.120

Note: 1. The U.S. dollar amounts represent translations, for convenience only, of yen amounts at the rate of ¥100.19 = $1.00.
2. The cash dividends per share for the year ended March 31, 2007 include a ¥2 ($0.020) commemorative dividend in celebration of the 60th anniversary of the Company's establishment.







Letter to Stakeholders

Dear Stakeholders,

I am pleased to report that Hanwa Co., Ltd. and its consolidated subsidiaries achieved strong sales and earnings in fiscal 2007, the fiscal year that ended in March 2008. Consolidated net sales increased 14.2% to ¥1,507.5 billion, a record high. On profit side, by extension of steel business and metals & alloys business, operating income increased 13.6% to ¥23.7 billion and net income increased 14.8% to ¥13.1 billion. As a result, the return on equity was 13.3%, a rise of 0.9 points over the previous year. The net debt-to-equity ratio improved by 20 points to 150%, because interest-bearing debt decreased.

Management Policy

HANWA's corporate Philosophy is "Coping with changes of times and the market quickly, we make a greater contribution to the society by satisfying various needs of customers as 'a distribution specialist.'"

Based on this philosophy, our priority is to put customers first as we distribute products that have more added value and build a business model that provides customers with ideas that match their needs. Our overall goal is to provide trading company-style distribution services that make a difference for our customers. Furthermore, we want to increase our corporate value in a manner that gains the support and appreciation from all stakeholders. Compliance is another priority. We are committed to being a responsible corporate citizen, functioning as an organization that uses business activities to make social contributions on both a local and global scale.

Dividend Policy

Returning earnings to shareholders is an extremely important element of our management goals. Our basic policy is to pay a dividend that reflects operating results in each fiscal year, based on the return on equity and dividend payout ratio. Dividends also reflect the need to retain sufficient earnings to fund future business activities and our base of operations.

Retained earnings are used to bolster our base of operations and make substantial investments in growing businesses and new businesses. In all cases, our goal is to raise Hanwa's corporate value.

Management Targets

Hanwa places importance on performance indicators that contribute to improving corporate value and financial soundness. Accordingly, targets have been established for the return on assets, return on equity and net debt-to-equity ratio. For fiscal year ending March 31, 2010 based on the New Mid-term Business Plan are as follows:

Targeted Management Index	FY2009 (ending March 31, 2010)
ROA	2.4%
ROE	11.0%
D/E Ratio (Net basis)	150.0%

Medium- and Long-term Strategy, and Management Issues

In May 2007, we established a Mid-term Business Plan that covers 3-year period from FY2007 through FY2009. The focus of this plan is "We aim to be a value creator with a remarkable identity and advantage by strengthening the function and differentiation." It sets a number of management goals and describes the initiatives that will be taken to achieve them.

(A) Strengthening the core business

Steel business

- Enhancement of processing functions for construction, proposal-driven marketing and steel service business
- Further development in various fields through proposal-driven marketing and interdivisional cooperation
- Enhancement of business in the field of structural steel sheets by differentiated products and reciprocity

- Meeting real demand in each community completely through branch offices
- Reinforcement of meeting the demand of processing on the basis of coil centers in China and ASEAN
- Focus on exportation of steel products for high quality, special and niche specs

Non-ferrous metal business

- Expansion of global network to strengthen business development in oligopolistic market of resources
- Enhancement of procuring capability and expansion of business by diversifying supply source of ferroalloys and light metals
- Expansion of ore business such as nickel and chromium

Food products business

- Expanding the processing business of seafood and increasing own processing products
- Establishment of a system for selling processed seafood in China, Europe and US. Enhancement of exporting raw material of seafood to China for domestic consumption
- Keeping up customers' reliance and increasing it by securing higher level of food safety

Petroleum and chemicals business

- Reinforcement of domestic sales for gasoline, kerosene and light oil. Expansion of exporting petroleum products
- Expanding importation and tripartite trade of versatile resin and exportation of domestic special resin
- Strengthening retail of convenience goods and oil-based products. Establishment of a delivery system

Other businesses

- Increasing our share of imported lumber by improving power to purchase from supplying countries
- Strengthening marketing industrial machinery meeting investment demand from our trading partners

Integrated development to China

- Business development in various fields, by utilizing ample business footholds and interdivisional cooperation

(B) Proactive development to overseas markets in such as North America, EU, Middle East, India, ASEAN, and Russia

- Strengthening of development to meet the growing demand for construction in abroad such as Middle East, by interdivisional cooperation
- Reinforcement of supporting Japanese customers raising production overseas, in the fields of providing materials and processing.
- Expanding bunker oil sales in the shipping industry, especially in Asia
- Reinforcement of lumber business in the areas with good market for construction, such as North America, China, and the Middle East

(C) Promotion of ecology and recycling business

- Establishment of the channels of collecting recycling resources retired from use due to customers' reorganization of business and facilities
- Reinforcement of purchasing scrap metals overseas. Expansion of exportation to Asia and Europe
- Development of selling recycled fuels such as RPF and wood pellet at home and overseas
- Establishment of network for purchasing scrap paper, responding to expansion of exportation to Asia
- Creation to get in operation for new technology such as solar energy and fuel battery
- Expansion of the recycling system of scrap resin

(D) Creation of new approach and new business to expand business domains

- Aggressive approach to medium-sized and small companies
- Expansion of material sales through over all coordination for each construction and development project
- Expansion of the business on interior and exterior construction materials
- Offering to trading partners with various materials
- Development of exporting domestic seafood
- Development of business on new energy such as biomass fuel and energy-saving
- Expansion of cooperative business in new distribution style
- Development of new businesses by utilizing information network and industry-academia-government cooperation

(E) Vigorous management by aggressive investments on projects and establishment of partnership

- Promoting business alliance with companies, which strengthen our function and supplement each other. Development of M&A. Support for business succession
- Strengthening and expansion of distribution business by cooperation between Hanwa Logistics and other distribution companies
- Cooperative development of new business scheme with customers in each area

- Cooperative scheme with processors to support Japanese manufacturers in overseas
- Strengthening the field of food processing by cooperation with food processors
- Supposed total investment from FY2007 through FY2009 ... 20 billion yen — "strategic business investment" besides "investment aiming of strengthening business functions"

With regard to corporate systems, we will make compliance activities a central element of our business operations. This will enable us to conduct CSR management in order to fulfill our social responsibilities as a company. We are also committed to meeting the expectations of shareholders. For this purpose, we will further reinforce our corporate governance systems and maintain a framework of internal controls designed to ensure the effectiveness of these systems.

Corporate Governance

Basic corporate governance policy

We aim to fulfill our social responsibilities as a good corporate citizen so that we can gain and retain the respect from stakeholders and be recognized as a valuable enterprise. We work to establish a high degree of transparency in management systems to ensure full legal and regulatory compliance and respect for social norms.

Corporate governance structures

We have adopted the system of corporate auditors as stipulated in the Corporate Law of Japan. Auditors are elected at the General Shareholders' Meeting, and are responsible for overseeing and auditing the performance of the Board of Directors, as well as the Managing Directors Committee, which is the main body responsible for execution of policy by subordinate company structures. The Board of Auditors reports to the General Shareholders' Meeting.

The Board of Directors, which is composed of directors whose are elected at the General Shareholders' Meeting, meets as a rule once a month to oversee important business plans and proposals concerning the Hanwa Group, and to deliberate and decide all key business policies.

The Managing Directors Committee, which is composed of the president, senior managing directors and managing directors, reports to the Board of Directors on all matters related to significant business decisions affecting the Hanwa Group. As the senior policy execution body in the company, this committee is charged with carrying out policies in line with the business strategy determined by the Board of Directors. The Managing Directors Committee meets as a rule twice a month.

Chaired by the president, the Directors Evaluation Committee meets two times a year, which is charged with assessing commitments made by directors and making overall performance evaluations on a mutual basis. Director remuneration and assignments reflect the level of evaluation, in line with meritocratic principles. In addition, we defined each director's responsibilities for business results and introduced the profit-related remuneration system.

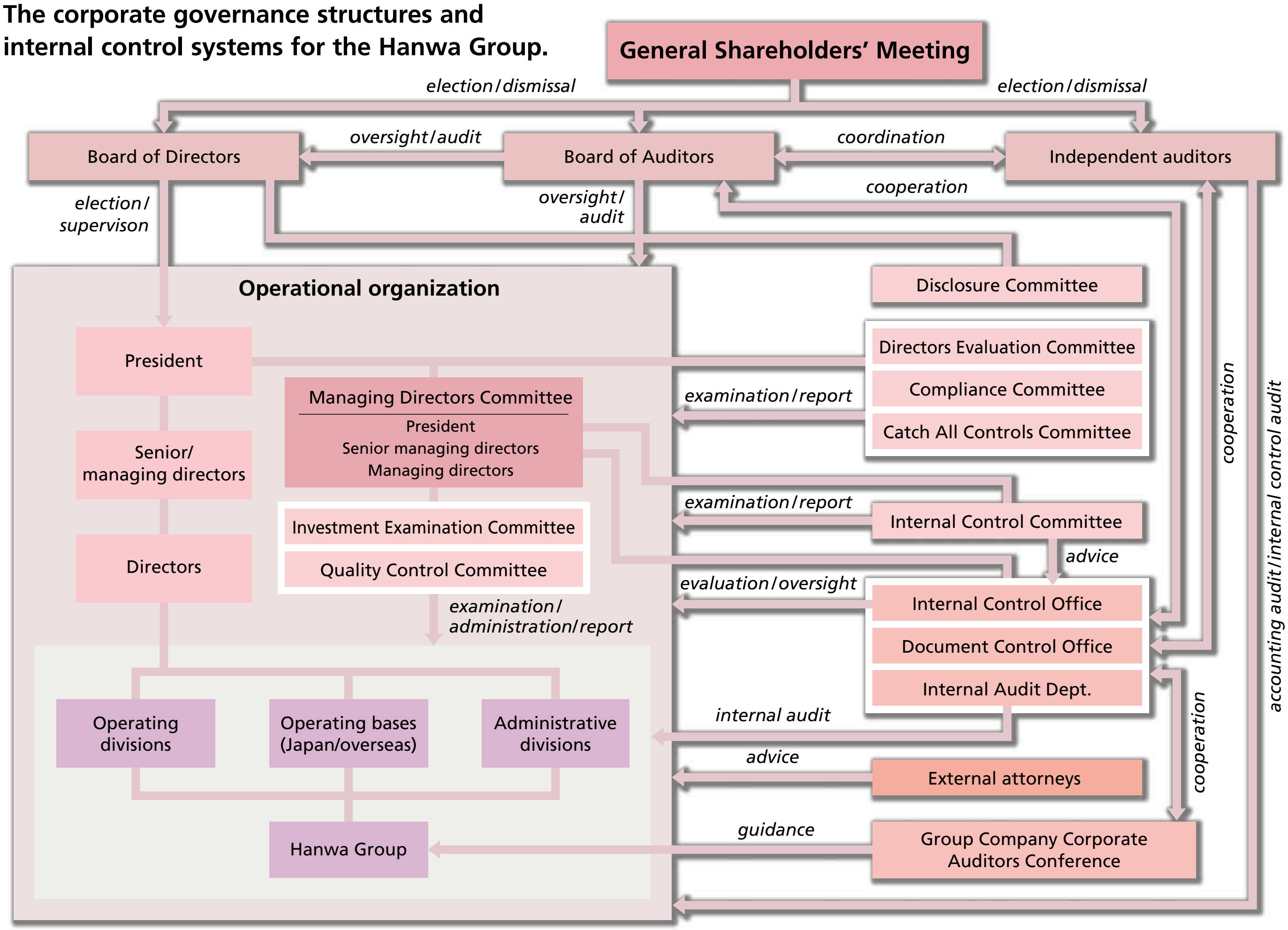
Internal control and risk management system

The Board of Director defined for the establishments of the system for ensuring the Directors' execution of operations comply with Laws, Regulations and Articles of Incorporation.

1. Systems to ensure that performance of duties by its directors and employees complies with laws and regulations and its articles of incorporation
   a) Hanwa has established standards for corporate ethics and ethical behavior in accordance with the company creed, guidelines and other elements of the Hanwa's corporate philosophy.
   b) Hanwa has established a Compliance Committee chaired by Hanwa's president to prepare a compliance manual for distribution to all Hanwa executives and employees. In addition, the committee will verify that compliance programs are being used effectively.
   c) Hanwa has established a consultation service (using the Compliance Committee and external attorneys) where all Hanwa Group executives and employees can obtain advice concerning compliance matters, providing a means of directly reporting compliance problems.
   d) Hanwa cooperates with the police and other authorities to retain a firm stance against forming any relationships with anti-social elements that threaten social order and public safety.

2. Systems to store and control information related to duties performed by the directors
   a) Information related to duties performed by the directors is properly stored in written document or electronically, and these records are stored and managed in accordance with laws, regulations and Hanwa's regulations for document management.
   b) The individual in charge of document management exercises care to prevent the loss, destruction or other harm to the written or electronic records. These materials are stored using security measures physically and logically (including passwords and other restrictions to access) as necessary.

The corporate governance structures and internal control systems for the Hanwa Group.



3. Regulations and systems related to management of risk of loss
   a) Directors and department managers work with the Legal & Credit Department to manage and reduce risks associated with business activities. This involves making all business units aware of regulations for credit management and business operations, and ensuring compliance with these regulations. In addition, there is an Investment Examination Committee that manages investment risks by studying proposals for new business ventures and new investments.
   b) Each business department will cooperate with the General Affairs Department, Information Systems Department, Legal & Credit Department and other units concerning compliance, environmental management, emergency responses, information security, export management and other matters. These risks will be managed in accordance with internal rules, manuals and other guidelines. The Compliance Committee, Catch All Controls Committee and other applicable committees will assist the departments by providing advice and educational support. Advice from external attorneys and other experts will be used as required.
   c) The Personnel Department works with related departments to conduct the training and other educational activities needed to make employees more aware of the importance of risk management.
   d) To verify the effectiveness of risk management, the Internal Audit Department monitors all Hanwa business sites and group companies in Japan based on a pre-determined auditing plan. Internal audit reports are submitted directly to the Managing Directors Committee and the company president. The Overseas Administrative Department and the Internal Audit Department monitor overseas group companies and other overseas business sites. All Hanwa directors receive a written audit report every month. In addition, the Board of Directors receive reports on the status of overseas operations twice a year.

e) For the disclosure of corporate information, Hanwa has established disclosure regulations and uses a Disclosure Committee to reach decisions concerning the importance and suitability of information to be disclosed in order to ensure that information is released to the public in a fair, timely and appropriate manner.

4. Systems to ensure efficient execution of directors' duties
   a) As a rule, the directors meet once each month to reach decisions concerning important group management matters and to supervise the execution of business operations. As a rule, the Managing Directors Committee meets twice each month. The members of this committee discuss important matters concerning management and reach decisions. They also submit issues to the Board of Directors that concern important matters involving the group's management.
   b) The Board of Directors established mid-term business plans and annual management plans for the purpose of achieving mid-term and long-term strategic objectives. The directors also monitor the execution of these plans. The Managing Directors Committee receives periodic presentations from directors and other managers in charge of business units. This allows the directors to evaluate the status of operations, check progress toward achieving goals and check other items (including revisions to plans and revisions to methods for achieving goals). The goal is to make business operations even more efficient.
   c) The Directors Evaluation Committee chaired by the company president meets twice each year to perform a comprehensive evaluation of the directors' performance. This includes an assessment of the commitments and performance of each director and a mutual evaluation process for all directors. The results are used to determine directors' compensation and for the selection of directors.

5. Systems to ensure proper operations in the corporate group
   a) Hanwa has established regulations for the oversight of affiliated companies and is dedicated to promoting business activities in a comprehensive manner through the efficient management of operations based on mutual collaboration between Hanwa and its affiliated companies.
   b) The Affiliated Enterprises Department monitors business operations at affiliated companies in Japan, providing support for the proper execution of business operations. The department also conducts oversight of these operations. The Overseas Administrative Department is responsible for similar support and management activities concerning overseas affiliated companies and other operations outside Japan.
   c) Compliance, risk management and other systems apply to operations across the entire Hanwa Group. Committees and other supervisory units provide guidance and education concerning the use of these systems.
   d) The Group Company Corporate Auditors Conference holds meetings as necessary. This conference is made up of Hanwa's full-time corporate auditors, the corporate auditors of affiliated companies, the Internal Audit Department and other departments. The meetings provide for exchanges of information involving audits of Hanwa and affiliated companies to provide for the sharing of information.

6. Systems relating to employees assigned to assist the corporate auditors, and the independence of such employees from the directors
   a) There is one employee assigned to assist the corporate auditors. The employee conducts studies, submits reports and performs other duties as requested by the corporate auditors, always working closely with the auditors. In addition, this employee receives no orders or instructions from the directors or anyone else concerning the directives and orders received from the corporate auditors.

7. Systems for the directors and employees to report to the corporate auditors and systems otherwise pertaining to reporting to corporate auditors
   a) In addition to submitting reports on legally mandated items, the directors submit reports to the corporate auditors on important items concerning compliance. This includes items such as major violations of laws, regulations and the articles of incorporation and reports received by the compliance reporting and consulting service. In addition, the directors submit reports to the corporate auditors at meetings of the Board of Directors, the Managing Directors Committee and other important meetings with regard to the execution of business operations and important decisions.

b) The directors and employees must quickly and accurately respond to requests for reports by the corporate auditors.

c) The Internal Audit Department will submit reports as required to the corporate auditors concerning internal audits performed under the pre-determined auditing plan. If necessary, this office will conduct studies and prepare reports as requested by the corporate auditors.

8. Other systems to ensure effective auditing by the corporate auditors

a) The corporate auditors exchange opinions with the representative directors and the directors in charge of business units as required. If necessary, these opinions are announced at meetings of the Board of Directors. In addition, the corporate auditors receive explanations of the financial audit from the independent auditor and exchange information and collaborate in other ways with this auditor.

b) Hanwa has a system that allows the corporate auditors to attend meetings of the Board of Directors and other important meetings, inspect important documents, perform studies of important departments and subsidiaries, and perform other tasks.

9. Systems to ensure the reliability of financial reports

a) Hanwa has the necessary systems for ensuring the reliability of its financial reports. There are systems for ensuring that laws and regulations as well as Hanwa's accounting standards and other internal regulations are followed. In addition, Hanwa has the systems needed to provide appropriate internal controls associated with risks that could have an effect on financial reports.

b) The Internal Control Department confirms the effectiveness of systems for preparing and using financial reports. As required, this department oversees improvements to these systems and submits reports concerning these improvements to the Managing Directors Committee.

c) The Internal Control Committee studies issues involving internal controls that are assigned to the committee by the Managing Directors Committee and submits reports on the results of these studies to this committee.

Internal audits, corporate auditor audits and financial audits

Regarding internal audits, Internal Audit Department monitors all business sites and group companies in Japan primarily with respect to accounting and compliance. An internal audit report is submitted directly to the president every month and reports are submitted as required to the Managing Directors Committee. Internal Audit Department also functions as the staff for the corporate auditors. The staff members submit reports as requested by the Board of Auditors and remain in constant contact with the corporate auditors. The Overseas Administrative Department monitors overseas subsidiaries and other overseas business sites primarily with respect to accounting and compliance. A report is submitted to all directors every month and a report on the status of overseas bases is submitted to the Board of Directors twice each year. Other reports are given as required in response to requests by the Board of Auditors.

Audits by the corporate auditors place priority on audits designed to prevent the occurrence of misconduct. The auditors perform dialog-style audits to determine the status of legal compliance, internal control, risk management and other items. Additionally, the auditors attend meetings of the Board of Directors, Managing Directors Committee and other important conferences to supervise and audit the performance of senior management. Hanwa's corporate auditors include individuals from outside the group who have rich knowledge concerning corporate activities. These auditors perform the required business audits while maintaining their autonomy from senior management. Furthermore, the auditors exchange opinions with the president and directors in charge of business units to clearly state corporate auditor opinions concerning the Board of Directors.

Concerning the independent accountant, Hanwa has an auditing contract with KPMG AZSA & Co. to perform audits required by the Corporate Law and the Financial Instruments and Exchange Law.

Hanwa's senior management will continue to take the lead in reinforcing the management and administration framework and taking other steps to further strengthen corporate governance.

August 2008

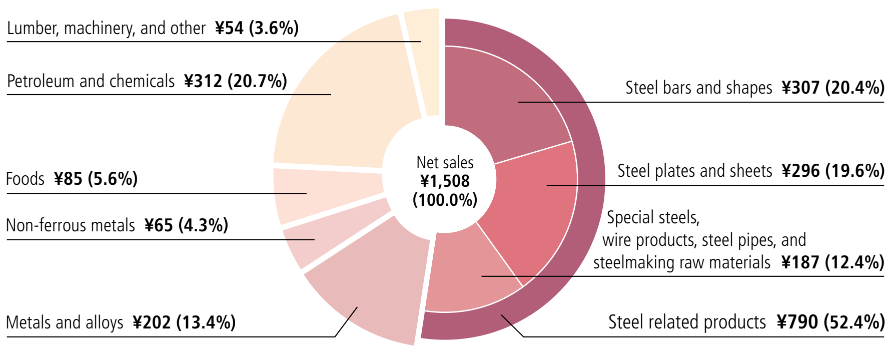
Shuji Kita
President
Hanwa Co., Ltd.

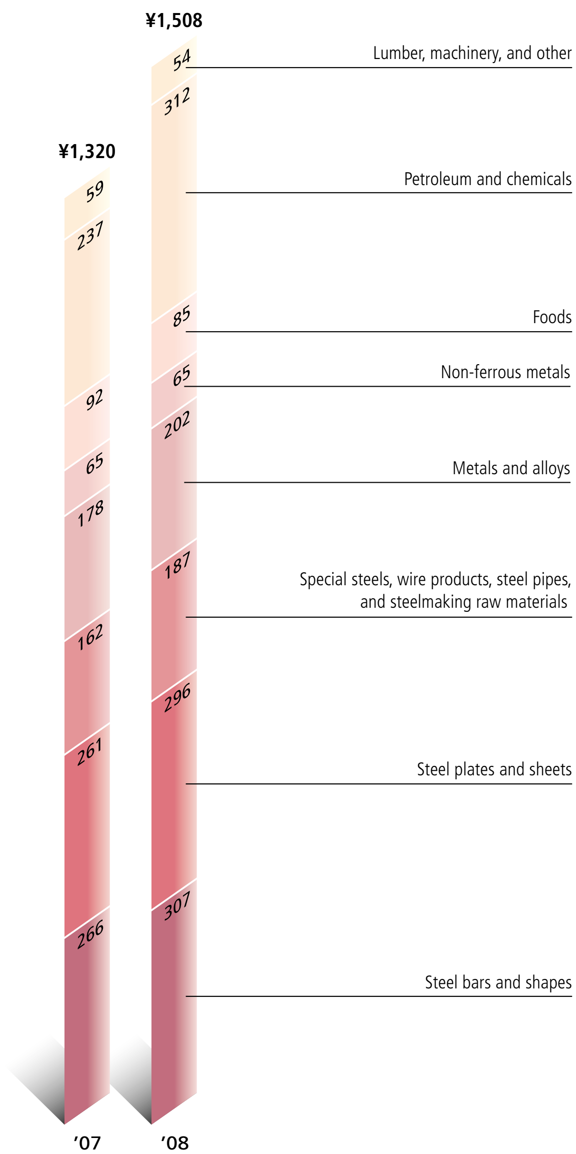
北　修爾
取締役社長
阪和興業株式会社

Review of Operations

For the year ended March 31, 2008

Net sales by Product (Billions of yen)





Steel (Domestic)

Review

In fiscal 2007, demand for steel in Japan remained strong in export-dependent industries like automobiles, construction machinery and shipbuilding. However, there was a drop in construction activity in Japan as the June 20, 2007 enforcement of the amended Building Standards Law created delays in construction applications and confirmations. External demand was very strong. Sales of automobiles, household appliances and mining machinery were higher in the BRICs countries and other emerging economies. In addition, there was remarkable growth in demand for steel in oil-producing countries in the Middle East for infrastructure and other construction projects. The resulting strength in direct and indirect exports raised Japan's exports of steel to a record 38.45 million tons. On the supply side, crude steel production in Japan rose to an all-time high of 121.50 million tons in fiscal 2007. Despite this growth, the supply of steel remained tight as higher orders for steel in the export and manufacturing sectors more than offset the downturn in demand in the domestic construction sector.

Hanwa's domestic steel business worked on increasing sales to small and medium-sized customers and on strengthening sales activities targeting large projects. Performance also benefited from procurement and inventory activities based on the outlook for higher steel prices. The result was growth in sales and earnings.

Outlook

Demand in the manufacturing sector will probably remain generally healthy during fiscal 2008. But there are fears about the spreading effects of the U.S. subprime loan crisis and the possibility of an impact on the global economy from rapid inflation caused by higher food and energy prices. This situation is creating an uncertain outlook for the fiscal year.

Demand for steel for construction in Japan will benefit from a number of large projects, mainly involving capital expenditures by companies in export-dependent industries and urban development projects. However, small and midsize companies are cutting back capital expenditures, housing starts are declining (particularly for condominiums), and consumer spending is expected to weaken because of inflation. Overall, these factors indicate that domestic demand for steel will probably be much weaker in fiscal 2008.

In the first half of fiscal 2008, which ends in September 2008, Hanwa's domestic steel business expects to achieve continued growth in sales and earnings. There will be orders for construction starts that were delayed by last year's new construction standards, more strength in the manufacturing sector and earnings from inventories as market prices of steel climb. The operating climate is likely to become more challenging in the second half as demand for building construction declines and weaker consumer spending brings down sales of automobiles and other consumer durables. In addition, Hanwa will take extra precautions regarding the collection of receivables due to the possibility of problems at customers in industries that are unable to raise prices to fully reflect the rapid and substantial increases in raw materials and other operating expenses.

The domestic steel business will continue to take actions aimed at creating operations that are less vulnerable to changes in the operating environment. Ongoing measures include reinforcing functions to target demand in niche markets and executing a detailed regional business strategy within Japan.

Steel (Overseas)

Review

During fiscal 2007, global demand for steel was generally strong despite a worldwide drop in stock prices, concerns about the U.S. economy and other negative developments early in the fiscal year. Fears about the global economic outlook started to grow in the summer of 2007 as the impact of the subprime loan crisis spread, especially in the United States. But overall demand remained healthy because of strength in emerging economies and resource-producing countries. In fiscal 2007, China's influence on global steel markets became even greater. The nation's crude steel production increased about 16% to 490 million tons and China's steel exports were up 46% to 62.65 million tons. Steel exports from Japan increased about 7% to 38.45 million tons.

Demand for steel was flat in Europe and North America. But there was very strong demand for steel used in buildings and infrastructure projects in Asia, the Middle East, Africa and the CIS countries. Orders were strong for flat rolled steel sheets, mild steel plates and mild steel bars and shapes.

The overseas steel operations of Hanwa had a strong performance in fiscal 2007. The volume of steel handled increased 10.0% and monetary sales were up 15.8%. Hanwa has established offices in New Delhi, Dubai, Dammam (Saudi Arabia) and Poland that will contribute to more growth in the overseas steel business.

Outlook

Market conditions in fiscal 2008 are difficult to foresee because of worries about inflation fueled by higher energy and food prices and the progressive weakening of the U.S. economy. Even amid these uncertainties, rapid growth of emerging economies is expected to keep demand for steel strong.

The much higher cost of iron ore, coal and other raw materials is exerting pressure on the profit margins of steelmakers in 2008. These higher costs and the consistently strong demand for steel in emerging economies are likely to push up steel prices worldwide.

Rapid growth in China's crude steel output is expected to raise fiscal 2008 production to 540 million tons. Steel exports from China will probably decline because of government policies to cut back exports, but the total volume of exports will remain high. In Japan, predictions call for increases in both crude steel production and steel exports in fiscal 2008.

Hanwa expects to achieve another year of growth in volume and monetary sales in its overseas steel operations due to a number of activities. Major fiscal 2008 initiatives include increasing sales for steel used in flat-panel TVs and other growing product categories; selling more automotive steel in China and other emerging markets; using the Dubai office to increase sales of mild steel bars and shapes in the Middle East; selling more steel pipes and sheets used in energy-related projects; and increasing offshore transactions. In terms of geographic activities, Hanwa will continue to expand its presence in China, which has immense demand for steel, while adopting an aggressive stance in India, the ASEAN countries, Middle East and the Americas.

Metals and Alloys

Review

In 2007, the price of nickel surged to a record high of $54,200 per ton in May. The price then dropped by almost half to less than $30,000 over the next three months. As the markets for nickel and stainless steel scrap remained extremely volatile, Japanese stainless steel makers were unable to purchase these materials in a stable manner. This instability reflected both rapid increases and decreases in demand as well as the effect on markets of the activities of stainless steel makers in South Korea and China. Despite the rapid movements of metal markets in Japan and overseas, Hanwa's metals and alloys business was able to keep its operations consistently profitable due to proactive inventory management and making effective use of hedges.

Prices of ferroalloys and light metals rose to new record highs in the second half of fiscal 2007. Amid confusion caused by non-deliveries and delays, Hanwa was able to capture earnings as prices rose by making advance purchases of metals. Ferroalloys made a contribution to earnings. One reason was ongoing measures to strengthen activities to sell these materials to blast furnace steel makers and specialty steel companies. Another reason was steady growth in earnings from the sale in Japan of ferrochrome supplied by Samancor Ltd. Additionally, the metal alloys business broadened the scope of sales of silicon manganese produced in Kazakhstan to blast furnace steel makers. For metallic manganese, Hanwa started doing business based on a set formula with a Chinese producer that has its own ore. For solar cell products, Hanwa further expanded the outsourced processing of silicon wafers in response to the shortage of raw materials. High-purity silicon metal is making a consistent contribution to earnings because this material is now used as a raw material for solar cells in addition to the existing applications for chemicals.

Outlook

The price of nickel has been falling because of declining demand for stainless steel and growth in the supply of nickel due to the development of new mines. This price will probably stabilize somewhere below $20,000 per ton. On the other hand, chromium is certain to become even more expensive. Contributing factors include South Africa's power shortage, a global decline in chromium inventories and no new sources of production for the next several years. Prices of ferroalloys and light metals are also expected to stay high. Among major causes are tighter export restrictions in China, environmental issues and the impact of the May 2008 Sichuan earthquake in China.

In the stainless steel and specialty metals recycling business, Hanwa's goal is to expand operations primarily by increasing the number of suppliers of these materials. One theme is adding more value to products and offering a more diverse selection. Another theme is building a highly efficient system for collecting materials for recycling. In India and other Asian nations, Hanwa will continue rebuilding distribution channels. For specialty metal scrap, Hanwa is concentrating mostly on the core markets of Europe and North America.

In the primary metal resources business, Hanwa is working on diversifying sources of nickel ore, nickel pig iron and other stainless steel raw materials and expanding processing operations. For ferroalloys, the main goal is conducting transactions with producers that have their own supplies of ore and increasing sales to blast furnace and electric arc furnace steel makers and manufacturers of specialty steel. In the chromium business, in addition to continuing to sell products from South Africa's Samancor and India, Hanwa will promote the Ruukki Projects, where it has made a new investment. For silicon metal, plans call for making further inroads in the market sector for high-purity products. In the solar cell business, Hanwa is building stronger relationships with companies that rely on outsourcing to process silicon wafers.

Non-Ferrous Metals

Review

In the first half of fiscal 2007, the performance of Hanwa's non-ferrous metals business was steady. It is resulted from that LME prices were high as LME price of copper moved between $7,000 and $8,000 per ton and aluminum between ¥2,700 and 2,900 per ton. In addition, there were no difficulties in procuring scrap metal for recycling. As the fiscal year's second half began, an LME correction brought copper down to $6,300 and aluminum to $2,400. Unfortunately, tight supplies of scrap prevented the prices of copper and aluminum for recycling from dropping along with their LME prices. Due to this situation, Hanwa was unable to earn a profit during the entire second half. The result was a large decline in non-ferrous metals earnings for the fiscal year.

In the core recycling business, the decision was made to add more internal aluminum processing facilities as part of Hanwa's strategy of supplying value-added products. For copper scrap, the trading volume increased because of progress made in building an operating framework in the ASEAN region.

Outlook

There has been a global upturn in prices of commodities and natural resources since the beginning of 2008. Non-ferrous metals prices have been no exception; prices of these metals are currently at or near their all-time highs. Present market conditions are extremely complicated. Factors like electricity shortages in China and South Africa and the falling quality of ore are pushing prices up. But concerns about the economic outlook in the United States and China are exerting downward pressure on non-ferrous metal markets.

Increasing the trading volume of scrap for recycling is the highest priority of the non-ferrous metals business in fiscal 2008. Handling more recycled metals is one way in which Hanwa can help customers lower their operating expenses. The non-ferrous metals business plans to raise its recycling volume by pursuing an aggressive procurement policy. In the aluminum and copper recycling business in Japan, Hanwa is building an efficient system for collecting scrap materials. In addition, Hanwa is using its own processing facilities and forming alliances with customers. The objective is to supply even more recycled products that are distinctive and incorporate considerable added value. These qualities will make Hanwa's products less vulnerable to market fluctuations. One more goal in fiscal 2008 is making more progress with rebuilding distribution channels for aluminum and copper scrap for recycling in Asia.

Food Products

Review
Sales decreased 10% to ¥84.8 billion in fiscal 2007. This was primarily a reflection of lower market prices during the fiscal year's first half, especially for red fish and salmon, and a drop in market prices of frozen shrimp in the second half, which brought down shrimp trading volume and earnings. The recent incident in Japan involving contaminated food from China had an impact on the outsourced food processing business in China. Hanwa's food business responded by reexamining business relationships with customers, a process that included the termination of some relationships.

Outlook
Outside Japan, demand for food is flat in the United States but continues to increase in Europe, including Eastern Europe. Hanwa plans to further increase sales of its food products in Europe and the United States in fiscal 2008.

Hanwa's U.S. affiliate Seattle Shrimp & Seafood, which was established in 2006, sells shrimp, crabs and other products. In July 2008, the food department of Hanwa's London Office, which was a primary base for purchasing these products, was moved to Amsterdam. The new Amsterdam office will not only purchase seafood, but also sell seafood throughout Europe and in Africa. In the future, Hanwa plans to expand the Amsterdam office into an operation that sells fish from Japan, processed food products from China, shrimp from Southeast Asia and many other items.

The Chinese food contamination incident is prompting many food companies to consider performing more processing operations in Japan. As a result, Japanese food processors, which are Hanwa's customers, are seeing an improvement in earnings. This is contributing to a recovery in sales of raw materials along with a rebound in the market for all types of frozen fish, backed by strength in salmon market.

Hanwa plans to create new opportunities for the food business by adopting a new approach to handling fish from Japan. By assigning a food business staff member to the Hokkaido Branch, Hanwa is preparing for the possible start of exports of Japanese fish to Europe and North America.

Consumers are now extremely concerned about food safety. As an importer of food products, Hanwa has established a Food Quality Control Office for the purpose of fulfilling its social obligation and raising awareness of food safety issues. The new department is devoted to achieving its mission of helping build even stronger ties rooted in mutual trust between the suppliers and customers of food products.

Petroleum and Chemicals

Review
The global economy reached a turning point in 2007. The U.S. subprime loan crisis caused the prolonged downturn in stock and bond prices resulted in excess liquidity with nowhere to go. As investors channeled this liquidity to energy and resource markets, prices rose to record levels that are no longer based on actual supply and demand dynamics. In the industrialized nations, rising prices of petroleum and chemical products caused demand to decline and produced a widening gap between companies that are winners and losers. Some resource-poor countries as well as oil-producing countries have been keeping the price of consumer petroleum products below prices on international markets. Although these countries have temporarily avoided economic problems caused by higher market prices, consumers in the poorest countries that produce no oil have been forced to pay market prices.

Sales of petroleum products were strong as Hanwa worked on capturing new customers while shifting from heavy oil to kerosene and other light oil products. Chemical operations were profitable as accurate responses to market trends offset delays in raising prices to incorporate higher expenses.

In Asia, Hanwa's bunker oil sales team used a distinctive sales strategy to accurately target the very high level of demand for marine fuel. The result was the highest volume of bunker sales in recent years.

In the paper products sector, exports from Japan of used paper to the ASEAN countries continues to grow, bringing this business closer to becoming a source of earnings.

Outlook
Growth in demand for petroleum products shows no signs of slowing, particularly in the BRICs countries. At the same time, there are many sources of instability on the supply side. Making the outlook even more unclear is the continuing flow of excess liquidity to commodity markets. These factors indicate that the price of crude oil will keep climbing to new records. Over the next several years, more costly crude oil will probably reduce demand. Eventually, falling demand is likely to bring down the cost of petroleum products. But it is impossible to predict when prices will start to fall.

In Japan, demand for petroleum products is expected to contract even more. Hanwa is responding with sales activities to targeting potential new customers and proposal-driven marketing for current customers. Another goal is growing faster outside Japan. One more theme for petroleum operations is building a base for new energy businesses and emissions trading.

For chemicals, the goals are increasing the volume of general-purpose resin offshore trading and moving faster to build ties with new customers, on way to prepare for the expected reversal in the balance between supply and demand.

In the paper products sector, Hanwa plans to expand and upgrade its exports of used paper to the ASEAN countries. In addition, the paper products business is establishing more relationships with prominent overseas suppliers.

Regarding miscellaneous household goods, Hanwa is working on ways to offer comprehensive services for customers in order to pass on the higher cost of purchasing these items.

Lumber

Review

Imports to Japan and sales of lumber declined because of weak demand following enforcement of the amended Building Standards Law. There were downturns in imports and sales in all categories of plywood and lumber products. Additionally, the uncertain outlook for orders from major Japanese producers of pre-cut beams is impacting lumber sales. Selling lumber products in the United States is difficult due to the substantial impact of the subprime loan problem. More time will be needed for the U.S. lumber market to recover. In other overseas markets, sales in the Middle East remain stable and Hanwa plans to target demand in China, India and other countries.

Outlook

As Russia's 2009 imposition of an 80% export tariff on logs approaches, it is necessary to find out alternative suppliers for lumber products and plywood. Hanwa's lumber business plans to start handling logs and wood used as raw materials. From a longer-term perspective, the business also plans to sell wood fuel pellets, chips for use as raw materials and other lumber products. The lumber business aims to increase sales not only in the slumping housing sector, but also by meeting demand for other types of wood-based materials. Outside Japan, the goal is to maintain consistent sales in the Middle East, China, India, Europe and other regions by offering a lineup that includes cedar lumber exported from Japan. In the United States, the lumber market is unlikely to recover in the near future.

Machinery

Review

Leisure facilities: In recent years, the trend for leisure facilities in Japan has shifted from a focus on large-scale rides equipment to attractions targeted at families. Responding to such needs, in fiscal 2007, Hanwa completed work on a merry-go-round and a swimming pool renovation project for young families, a role-playing game made in the U.S. (launching for the first time in Japan), as well as six attraction shops for children made in Hong Kong.

For the next fiscal year, Hanwa has taken orders for role-playing games and dark rides produced in the U.S. for indoor amusement parks in Japan. In addition, it has contracted overseas projects such as a family-oriented roller-coaster and other rides for families and youths in Dubai.

Industrial machinery: Through cooperation among the internal departments of the Company, Hanwa has taken proactive steps to submit proposals and undertake sales and marketing activities with regard to the capital investment projects of its customers. As a result, the Company successfully contracted 20 new customers for the provision of stainless steel scrap processing facilities, hoists and cranes, band saws, hot forging presses, and NC lathes, among others. Furthermore, it recorded 22 sales of slitters, levelers, cranes, electric generators, steel bar processing equipment, and other products in connection with Hanwa Group's internal capital expenditures.

Outlook

Leisure facilities: Competition is easing as other suppliers of leisure facilities in Japan withdraw from this market. However, no end is in sight to the decline in demand for large, outdoor amusement equipment. In response, Hanwa is focusing on the development and sale of indoor amusement equipment for families and the business of creating indoor amusement facilities. Plans also include sales activities in Japan's growing market for swimming pool renovations and extending operations to include the leisure facility markets in China, the Middle East and other regions outside Japan.

Industrial machinery: Hanwa plans to increase sales of cranes and steel processing equipment as steel, automobile and home appliance manufacturers make substantial capital expenditures backed by strong earnings. Other goals are increasing overseas sales and raising sales of forming lines and other production line equipment, along with the provision of engineering support. This business will use its alliance with other suppliers to enlarge the product lineup and eliminate problems associated with a shortage of workers.

Our Ethical Principles

In accordance with the policy of the company incorporated into Corporate Creed and the "Charter of Corporate Behavior" established by Nippon Keidanren, Hanwa Co., Ltd. draws up, under the Corporate Policy, the Corporate Ethical Standards and the Ethical Standards of Behavior as guidelines for employee behaviors in order to promote legal, fair and sensible corporate conducts.

Corporate Creed

Confidence

Each director, officer and employee should recognize that confidence is the foundation of company existence, observe correct business practices and build up confidence of our stakeholders and society through everyday business.

Honesty

Always be aware that honesty is the basis of earning confidence, and try to act with fair and high openness, and complete its own assignments with honesty and responsibility.

Originality

Originality is the basis of progress and improvements. Under the current diversified circumstance, constantly absorb new information, improve efficiency, and fulfill its responsibility with courage, not being obsessed with traditional ideas.

Cooperation

Always respect other person's position with a heart of cooperation in local communities and international societies. Try to keep in harmony with society through decent business conducts and make an open and vigorous work place.

Contribution

Widely contribute to society through business under sound company activities, and try to promote environmental conservation as a part of its social responsibility.

Corporate Policy

- Earn confidence with honesty and efforts.
- Be a specialist in the field with its vigor and guts.
- Improve efficiency with its originality and cooperation
- Promote corporate business and build happy homes
- Recognize its responsibility and contribute to society

Corporate Ethical Standards

Hanwa Co., Ltd. hereby draws up the following ethical standards as basic concept for constantly recognizing its required social role and responsibility and establishing high corporate ethical framework under its policy of the company. Its all directors, officers and employees shall comply with and perform these standards in its daily business activities.

1. Compliance with regulations and social rules

Hanwa Co., Ltd. complies with laws, regulations, international rules and other social rules, and promotes corporate activities in accordance with social common sense.

2. Fair corporate activities

Hanwa Co., Ltd. does business activities realizing that a fair and free competition is the basic rule of the market economy, and maintains sound and highly transparent relationship with the government and public administration.

3. Contribution to the industry society

Hanwa Co., Ltd. develops its business activities based on both short and long term perspectives while balancing three aspects of society, economy and environment, and makes efforts to realize the sustainable society through its business activities.

4. Active information disclosure

Hanwa Co., Ltd. fully recognizes high interests of society in corporate activities, widely communicates with not only its shareholders but also society, and maintains its corporate transparency with fair and active information disclosures.

5. Consideration for environment

Hanwa Co., Ltd. constantly acknowledges that consideration for environment is a part of its social responsibilities and deals with environmental issues from the worldwide point of view voluntarily and actively.

6. Global harmonization

Hanwa Co., Ltd. as an international entity respects local cultures and customs abroad, and promotes its managements to contribute to developments of local areas.

7. Establishment of free and vigorous work environment

Hanwa Co., Ltd. respects its employees' individual characters and personalities, ensures prosperous work environments by giving its employees positive assistance for building up of career and development of ability, recognizes team works as the foundation of corporate activities, and achieves free, vigorous and creative corporate culture.

8. Promotion of active social actions as "a good corporate entity".

Hanwa Co., Ltd. integrates corporate and public benefits, widely returns its achievements gained through corporate activities and makes social contributions voluntarily and actively in every aspect.

9. Thorough familiarization of ethical standards and development of in-house framework

Hanwa Co., Ltd. thoroughly familiarizes the persons concerned with these standards to effectively implement the rule by its managements' active involvement and develop its in-house framework for more efficient and effective operations.

10. Prevention of recurrence of misconducts and appropriate information disclosure

Hanwa Co., Ltd. always checks its effectiveness in implementation of these standards. In the event any misconduct against these standards happens, Hanwa Co., Ltd. discloses relevant information, explains the circumstance promptly and properly to society and prevent recurrence of such misconducts by investigating cause of such misconducts.

Corporate ethical standards of behavior

Under the spirits of the Corporate Ethical Standards, Hanwa Co., Ltd. hereby draws up the following ethical standards of behavior as concrete guidelines to ensure high corporate ethics through everyday business. Its all directors, officers and employees shall comply with these standards in their activities.

1. Observe Antitrust Law and other laws and regulations, and operate its business fairly and appropriately.
2. Observe Unfair Competition Prevention Law and maintain sound market environment based on free competition.
3. Fully understand and appropriately manage the qualification and permission necessary for performing its business.
4. Observe treaties, laws and regulations of various countries in relation to import and export business, and appropriately operate its import and export transaction.
5. Respect Intellectual Property Rights and keep intellectual property under strict control and do not infringe third party's ones.
6. Observe laws and regulations with respect to the environment and operate its business considering global environment.
7. Do not conduct unjust dealings of shares and other securities such as insider trading.
8. Observe the Regulation of Money for Political Activities Act. and do not make illegal political donation.
9. Manage information carefully and maintain sound information network.
10. Give consideration to human rights and exclude unjust discriminations, abuses, harassments, etc.
11. Observe traffic law and other laws, regulations and rules of social common ideas with which we shall comply as social citizens.
12. Comply with laws, regulations, international rules, social customs and in-house rules in accordance with the management policy, and maintain high ethics.
13. Cooperate with social developments and positively promote contribution to society.
14. Maintain sound and transparent management by positively disclosing information.
15. Cope resolutely with antisocial forces and refrain from any profit-offering, etc.
16. Emphasize in-house education and develop expertise and creativity.
17. Maintain vigorous work environment with fair personnel evaluation.
18. Encourage employees to report, contact and consult, and promote open and highly transparent business activities.
19. Do not make transactions contradicting company's profit, maintain sound relationship with its customers, and draw a line between public and private affairs.
20. With respect to entertainment and gift offered by the Company, comply with laws and regulations concerned and stay within the extent socially permitted.
21. Follow accounting related regulations and make fair, appropriate and proper accounting books and records.
22. Follow credit management regulations and put proper credit control in practice.
23. Always check and understand contents of contracts and actual conditions of dealings with clients.
24. Draft both external documents such as contracts and in-house memorandums properly and keep such documents in accordance with company regulations.
25. Give due consideration for issues of safety and hygiene in managing business activities and labor services.

Topics

Hanwa History Book Issued on 60th Anniversary

Hanwa, which was established in 1947, celebrated its 60th anniversary in April 2007. As one way to mark this achievement, the company issued a book in January 2008 titled "A 60-Year History of Hanwa". The book has two sections. First is a "Hanwa Photographic Collection" section made up of historic photos of the company's activities. The other section is an overview of activities during the past decade. Overall, the book is filled with information and many photographs about events over the 60-year period that began with the 1946 start of operations and the April 1947 establishment of Hanwa.

Chang Fu Stainless Steel Center (Suzhou) Completes Relocation and Expansion

Chang Fu Stainless Steel Center (Suzhou) Co., Ltd., a joint venture in China, has been operating a coil center since in 1997. The company's sales volume has increased steadily during the following decade. In 2007, the company sold 120,645 tons of steel and processed 213,194 tons of steel.

Since more growth in demand is expected, the company started construction in January 2007 on a new coil center to increase processing capacity. In March 2008, all work required for the relocation and expansion of operations was completed.

The new coil center is on a 66,667 square meter site and the building area is 26,419 square meters, about twice the size of the previous coil center. The addition of a large-scale slitter and a mini leveler has raised monthly processing capacity to 25,000 tons.

Management Discussion and Analysis

Economic overview

During the fiscal year that ended on March 31, 2008, there were a number of negative factors, including higher prices of crude oil, non-ferrous metals, food and other resources, turmoil in global financial market sparked by the subprime loan crisis, and slowing growth of the U.S. economy. On the positive side, economic growth continued in China and other countries with emerging economies. Overall, the global economy continued to expand despite a shift in the pace of growth. In Japan, production levels in the manufacturing sector remained high mainly because of healthy external demand. But capital expenditures and personal spending in Japan were both sluggish. In addition, enforcement of the amended Building Standards Law caused a downturn in building and housing starts. There was also an increase in the cost of raw materials. As a result, Japan's economy remained generally healthy, although there were signs of weakness in some sectors.

Sales by business sector

Steel: The supply of steel products was tight as very strong demand in the Middle East and emerging economies resulted in solid orders for the products of manufacturers in Japan and other countries. In addition, prices of iron and steel scrap , and steel raw materials increased. Due to the resulting upturn in prices of steel products, along with aggressive sales activities, segment sales increased 14.7% to ¥790.3 billion.

Metals & Alloys: Prices of metals on international markets were extremely volatile during the fiscal year due to shifts in the outlook for supply and demand and to the activities of funds and other sources of speculative investments. Prices of all metals, notably nickel, chrome, stainless steel scrap and other stainless steel materials were higher than in the previous fiscal year. The result was a 13.8% increase in sales to ¥202.0 billion.

Non-Ferrous Metals: Just as with metals & alloys, prices on international markets were volatile. At one point, there was even a reversal in the prices of aluminum scrap and ingot. Since Hanwa adopted a policy of prioritizing profitability in all product categories, sales decreased 0.1% to ¥65.3 billion.

Foods: Amid generally lackluster demand for food products in Japan, the market was impacted by incidents involving the quality of eels from China and the safety of processed food products made in China. This challenging environment caused sales to decline 7.9% to ¥84.6 billion.

Petroleum and Chemicals: The price of crude oil increased significantly because of strong demand in China and other emerging nations along with purchases of crude oil by funds and other investors. As prices climbed, Hanwa increased its trading volumes of gasoline and kerosene and focused on increasing sales of bunker oil outside Japan. Due to these activities, sales increased 31.2% to ¥311.4 billion.

Other businesses: Sales decreased 8.4% to ¥53.6 billion. This was mainly attributable to lower sales in the forest products business resulting from a decline in market prices of lumber in Japan as the amended Building Standards Law caused the number of housing starts to drop.

Cash Flows

Net cash provided by operating activities was ¥21.4 billion. One year earlier, operating activities used net cash of ¥36.1 billion. The primary reason for the positive cash flow was an increase of only ¥4.6 billion in trade receivables, ¥46.0 billion less than the increase one year earlier, even though sales continued to increase in the past fiscal year. This was mainly the result of an improvement in the cycle for recovering receivables.

Net cash used in investing activities increased ¥2.4 billion to ¥8.4 billion. The main reasons were an increase in additions to property and equipment and a decrease in proceeds from sales of investment securities.

Net cash used in financing activities was ¥9.1 billion. One year earlier, financing activities provided net cash of ¥34.3 billion. The reversal is attributable to the use of cash flows from operating activities to lower debt by reducing bank loans and commercial paper.

Outlook

In the fiscal year ending March 31, 2009, worries remain about the magnitude of the impact on the global economy of the credit crunch caused by the subprime loan problem. However, economic growth is still strong in the Middle East and emerging economies, indicating that the global economy will continue to expand slowly. In Japan, demand for new buildings and residences is recovering and the economy will probably benefit from solid demand in emerging economies. But there is a possibility of an economic downturn in Japan due to weakening demand in North America and Europe, the rising price of crude oil and other natural resources, and the yen's strength. As a result, there are concerns about a decline in Japan's economic growth rate.

Five-Year Summary

For the years ended March 31

	Millions of yen, except for number of employees					Thousands of U.S. dollars
	2008	2007	2006	2005	2004	**2008**
For the year:						
Net sales	**¥ 1,507,509**	¥ 1,320,022	¥ 1,097,707	¥ 933,956	¥ 751,964	**$15,046,502**
Operating income	**23,705**	20,865	19,690	22,091	12,666	**236,600**
Net income	**13,118**	11,423	10,504	13,704	5,662	**130,931**
Net cash provided by (used in) operating activities	**21,430**	(36,192)	22,299	(13,341)	(6,850)	**213,894**
Net cash used in investing activities	**(8,443)**	(5,956)	(14,079)	(731)	(1,004)	**(84,270)**
Net cash provided by (used in) financing activities	**(9,144)**	34,325	(7,497)	23,523	(10,873)	**(91,267)**
At year-end:						
Cash and cash equivalents	**¥ 14,179**	¥ 10,229	¥ 18,986	¥ 17,658	¥ 8,390	**$ 141,521**
Total assets	**482,014**	476,179	413,020	376,521	293,528	**4,810,999**
Total net assets	**100,926**	98,254	86,954	73,574	58,293	**1,007,346**
Number of employees	**1,715**	1,637	1,519	1,424	1,285	

	Yen					U.S. dollars
	2008	2007	2006	2005	2004	**2008**
Per share data:						
Net income	**¥ 62.07**	¥ 54.03	¥ 48.96	¥ 64.03	¥ 26.43	**$ 0.620**
Cash dividends	**12.00**	12.00	10.00	9.00	6.00	**0.120**
Net assets	**473.70**	461.21	406.68	343.82	272.67	**4.728**

	%				
	2008	2007	2006	2005	2004
Key financial ratios:					
Return on assets	**2.7**	2.6	2.7	4.1	2.0
Return on equity	**13.3**	12.4	13.2	21.0	10.2
Net debt/equity ratio	**150**	170	140	170	180

Note: 1. The U.S. dollar amounts represent translations, for convenience only, of yen amounts at the rate of ¥100.19 = $1.00.
2. Net debt/equity ratio = Net interest-bearing debt / equity.
Net interest-bearing debt = Interest-bearing debt – cash.
3. The cash dividends per share for the year ended March 31, 2007 include a ¥2 ($0.020) commemorative dividend in celebration of the 60th anniversary of the Company's establishment.

Financial Section

Contents

HANWA CO., LTD. AND CONSOLIDATED SUBSIDIARIES

Consolidated Balance Sheets

As at March 31, 2008 and 2007

	Millions of yen		Thousands of U.S. dollars (Note 1)	
Assets	**2008**	2007	**2008**	2007
Current assets:				
Cash and cash equivalents	**¥ 14,179**	¥ 10,229	**$ 141,521**	$ 102,096
Receivables:				
Trade notes and accounts:				
Unconsolidated subsidiaries and affiliates	**6,886**	7,168	**68,729**	71,544
Other	**256,307**	252,204	**2,558,209**	2,517,257
Loans:				
Unconsolidated subsidiaries and affiliates	**695**	451	**6,937**	4,502
Other	**177**	177	**1,767**	1,767
Allowance for doubtful receivables	**(892)**	(911)	**(8,903)**	(9,093)
Inventories	**92,982**	88,221	**928,057**	880,537
Deferred tax assets - current (Note 8)	**1,823**	1,097	**18,195**	10,949
Other current assets (Note 5)	**18,615**	23,636	**185,797**	235,912
Total current assets	**390,772**	382,272	**3,900,309**	3,815,471
Investments and noncurrent receivables:				
Investment securities (Notes 3 and 5):				
Unconsolidated subsidiaries and affiliates	**2,343**	1,402	**23,386**	13,993
Other	**29,100**	36,765	**290,448**	366,953
Loans receivable:				
Unconsolidated subsidiaries and affiliates	**—**	—	**—**	—
Other	**262**	327	**2,615**	3,264
Other investments and noncurrent receivables	**16,674**	14,619	**166,424**	145,913
Allowance for doubtful receivables	**(756)**	(749)	**(7,546)**	(7,476)
Total investments and noncurrent receivables	**47,623**	52,364	**475,327**	522,647
Property and equipment (Note 5)**:**				
Land (Note 9)	**24,453**	24,453	**244,066**	244,066
Buildings and structures	**22,479**	21,408	**224,364**	213,675
Other	**13,437**	11,575	**134,115**	115,530
Accumulated depreciation	**(17,628)**	(16,605)	**(175,945)**	(165,735)
Total property and equipment	**42,741**	40,831	**426,600**	407,536
Other assets:				
Deferred tax assets – noncurrent (Note 8)	**69**	10	**689**	100
Intangibles and other assets (Note 5)	**809**	702	**8,074**	7,006
Total other assets	**878**	712	**8,763**	7,106
Total	**¥ 482,014**	¥ 476,179	**$ 4,810,999**	$ 4,752,760

See accompanying Notes to Consolidated Financial Statements.

Liabilities and Net Assets	Millions of yen 2008	Millions of yen 2007	Thousands of U.S. dollars (Note 1) 2008	Thousands of U.S. dollars (Note 1) 2007
Current liabilities:				
Short-term loans payable (Note 6)	**¥ 27,114**	¥ 43,092	**$ 270,626**	$ 430,103
Commercial paper (Note 6)	**17,000**	17,500	**169,678**	174,668
Long-term debt due within one year (Note 6)	**32,625**	50	**325,631**	499
Trade notes and accounts payable:				
Unconsolidated subsidiaries and affiliates	**660**	647	**6,587**	6,458
Other	**167,628**	159,782	**1,673,101**	1,594,790
Accrued bonuses to employees	**1,763**	1,694	**17,597**	16,908
Income taxes payable	**4,813**	4,051	**48,039**	40,433
Other current liabilities	**29,416**	24,280	**293,602**	242,339
Total current liabilities	**281,019**	251,096	**2,804,861**	2,506,198
Noncurrent liabilities:				
Long-term debt due after one year (Note 6)	**89,325**	111,950	**891,556**	1,117,377
Employees' severance and retirement benefits (Note 7)	**9**	8	**90**	80
Deferred tax liabilities – noncurrent (Note 8)	**6,801**	10,978	**67,881**	109,572
Other noncurrent liabilities	**3,934**	3,893	**39,265**	38,856
Total noncurrent liabilities	**100,069**	126,829	**998,792**	1,265,885
Contingent liabilities (Note 12)				
Net assets (Note 9)				
Shareholders' equity:				
Common stock,				
Authorized: 570,000,000 shares				
Issued: 211,663,200 shares	**45,651**	45,651	**455,644**	455,644
Capital surplus	**5**	3	**50**	30
Retained earnings	**51,028**	40,661	**509,312**	405,839
Treasury stock, at cost: 324,332 shares (291,554 in 2007)	**(130)**	(109)	**(1,297)**	(1,088)
Total shareholders' equity	**96,554**	86,206	**963,709**	860,425
Valuation and translation adjustments:				
Unrealized gains on securities, net of taxes	**5,397**	11,406	**53,868**	113,844
Unrealized gains on hedging derivatives, net of taxes	**144**	838	**1,437**	8,364
Land revaluation difference, net of taxes	**(17)**	(17)	**(170)**	(170)
Foreign currency translation adjustments	**(1,967)**	(947)	**(19,632)**	(9,452)
Total valuation and translation adjustments	**3,557**	11,280	**35,503**	112,586
Minority interests	**815**	768	**8,134**	7,666
Total net assets	**100,926**	98,254	**1,007,346**	980,677
Total	**¥ 482,014**	¥ 476,179	**$ 4,810,999**	$ 4,752,760

HANWA CO., LTD. AND CONSOLIDATED SUBSIDIARIES

Consolidated Statements of Income

For the years ended March 31, 2008 and 2007

	Millions of yen		Thousands of U.S. dollars (Note 1)	
	2008	2007	**2008**	2007
Net sales	**¥ 1,507,509**	¥ 1,320,022	**$ 15,046,502**	$ 13,175,187
Cost of sales	**1,456,627**	1,272,532	**14,538,647**	12,701,188
Gross profit	**50,882**	47,490	**507,855**	473,999
Selling, general and administrative expenses	**27,177**	26,625	**271,255**	265,745
Operating income	**23,705**	20,865	**236,600**	208,254
Other income (expenses):				
Interest and dividend income	**1,920**	1,633	**19,164**	16,299
Interest expense	**(4,164)**	(3,233)	**(41,561)**	(32,269)
Foreign exchange gain	**507**	663	**5,061**	6,617
Gain on sale of investments in securities	**528**	—	**5,270**	—
Other, net	**(701)**	(758)	**(6,997)**	(7,565)
Income before income taxes and minority interests	**21,795**	19,170	**217,537**	191,336
Income taxes (Note 8)**:**				
Current	**8,633**	7,399	**86,166**	73,850
Deferred	**5**	270	**50**	2,695
	8,638	7,669	**86,216**	76,545
Minority interests in income of consolidated subsidiaries	**(39)**	(78)	**(390)**	(778)
Net income	**¥ 13,118**	¥ 11,423	**$ 130,931**	$ 114,013

	Yen		U.S. dollars (Note 1)	
	2008	2007	**2008**	2007
Net income per share	**¥ 62.07**	¥ 54.03	**$ 0.620**	$ 0.539
Cash dividends per share	**12.00**	12.00	**0.120**	0.120

See accompanying Notes to Consolidated Financial Statements.

Consolidated Statements of Changes in Net Assets

For the years ended March 31, 2008 and 2007

	Thousands	Millions of yen			
	Number of shares of common stock	Common stock	Capital surplus	Retained earnings	Treasury stock
Balance at March 31, 2006	211,663	¥ 45,651	¥ 3	¥ 31,288	¥ (67)
Net income	—	—	—	11,423	—
Cash dividends paid	—	—	—	(2,114)	—
Bonuses to directors	—	—	—	(150)	—
Staff and workers' bonuses and welfare fund	—	—	—	(1)	—
Increase resulting from increase in consolidated subsidiaries	—	—	—	215	—
Purchases of treasury stock	—	—	—	—	(43)
Retirement of treasury stock	—	—	—	—	1
Other changes	—	—	—	—	—
Balance at March 31, 2007	**211,663**	**45,651**	**3**	**40,661**	**(109)**
Net income	**—**	**—**	**—**	**13,118**	**—**
Cash dividends paid	**—**	**—**	**—**	**(2,748)**	**—**
Staff and workers' bonuses and welfare fund	**—**	**—**	**—**	**(3)**	**—**
Purchases of treasury stock	**—**	**—**	**—**	**—**	**(26)**
Retirement of treasury stock	**—**	**—**	**2**	**—**	**5**
Other changes	**—**	**—**	**—**	**—**	**—**
Balance at March 31, 2008	**211,663**	**¥ 45,651**	**¥ 5**	**¥ 51,028**	**¥ (130)**

	Millions of yen					
	Unrealized gains on securities, net of taxes	Unrealized gains on hedging derivatives, net of taxes	Land revaluation difference, net of taxes	Foreign currency translation adjustments	Minority interests	Total
Balance at March 31, 2006	¥ 10,446	¥ —	¥ (17)	¥ (1,159)	¥ 809	¥ 86,954
Net income	—	—	—	—	—	11,423
Cash dividends paid	—	—	—	—	—	(2,114)
Bonuses to directors	—	—	—	—	—	(150)
Staff and workers' bonuses and welfare fund	—	—	—	—	—	(1)
Increase resulting from increase in consolidated subsidiaries	—	—	—	—	—	215
Purchases of treasury stock	—	—	—	—	—	(43)
Retirement of treasury stock	—	—	—	—	—	1
Other changes	960	838	—	212	(41)	1,969
Balance at March 31, 2007	**11,406**	**838**	**(17)**	**(947)**	**768**	**98,254**
Net income	**—**	**—**	**—**	**—**	**—**	**13,118**
Cash dividends paid	**—**	**—**	**—**	**—**	**—**	**(2,748)**
Staff and workers' bonuses and welfare fund	**—**	**—**	**—**	**—**	**—**	**(3)**
Purchases of treasury stock	**—**	**—**	**—**	**—**	**—**	**(26)**
Retirement of treasury stock	**—**	**—**	**—**	**—**	**—**	**7**
Other changes	**(6,009)**	**(694)**	**—**	**(1,020)**	**47**	**(7,676)**
Balance at March 31, 2008	**¥ 5,397**	**¥ 144**	**¥ (17)**	**¥ (1,967)**	**¥ 815**	**¥ 100,926**

See accompanying Notes to Consolidated Financial Statements.

	Thousands of U.S. dollars (Note1)			
	Common stock	Capital surplus	Retained earnings	Treasury stock
Balance at March 31, 2006	$ 455,644	$ 30	$ 312,287	$ (669)
Net income	—	—	114,013	—
Cash dividends paid	—	—	(21,100)	—
Bonuses to directors	—	—	(1,497)	—
Staff and workers' bonuses and welfare fund	—	—	(10)	—
Increase resulting from increase in consolidated subsidiaries	—	—	2,146	—
Purchases of treasury stock	—	—	—	(429)
Retirement of treasury stock	—	—	—	10
Other changes	—	—	—	—
Balance at March 31, 2007	**455,644**	**30**	**405,839**	**(1,088)**
Net income	**—**	**—**	**130,931**	**—**
Cash dividends paid	**—**	**—**	**(27,428)**	**—**
Staff and workers' bonuses and welfare fund	**—**	**—**	**(30)**	**—**
Purchases of treasury stock	**—**	**—**	**—**	**(259)**
Retirement of treasury stock	**—**	**20**	**—**	**50**
Other changes	**—**	**—**	**—**	**—**
Balance at March 31, 2008	**$ 455,644**	**$ 50**	**$ 509,312**	**$ (1,297)**

	Thousands of U.S. dollars (Note1)					
	Unrealized gains on securities, net of taxes	Unrealized gains on hedging derivatives, net of taxes	Land revaluation difference, net of taxes	Foreign currency translation adjustments	Minority interests	Total
Balance at March 31, 2006	$ 104,262	$ —	$ (170)	$ (11,568)	$ 8,075	$ 867,891
Net income	—	—	—	—	—	114,013
Cash dividends paid	—	—	—	—	—	(21,100)
Bonuses to directors	—	—	—	—	—	(1,497)
Staff and workers' bonuses and welfare fund	—	—	—	—	—	(10)
Increase resulting from increase in consolidated subsidiaries	—	—	—	—	—	2,146
Purchases of treasury stock	—	—	—	—	—	(429)
Retirement of treasury stock	—	—	—	—	—	10
Other changes	9,582	8,364	—	2,116	(409)	19,653
Balance at March 31, 2007	**113,844**	**8,364**	**(170)**	**(9,452)**	**7,666**	**980,677**
Net income	**—**	**—**	**—**	**—**	**—**	**130,931**
Cash dividends paid	**—**	**—**	**—**	**—**	**—**	**(27,428)**
Staff and workers' bonuses and welfare fund	**—**	**—**	**—**	**—**	**—**	**(30)**
Purchases of treasury stock	**—**	**—**	**—**	**—**	**—**	**(259)**
Retirement of treasury stock	**—**	**—**	**—**	**—**	**—**	**70**
Other changes	**(59,976)**	**(6,927)**	**—**	**(10,180)**	**468**	**(76,615)**
Balance at March 31, 2008	**$ 53,868**	**$ 1,437**	**$ (170)**	**$ (19,632)**	**$ 8,134**	**$ 1,007,346**

See accompanying Notes to Consolidated Financial Statements.

Consolidated Statements of Cash Flows

For the years ended March 31, 2008 and 2007

	Millions of yen		Thousands of U.S. dollars (Note 1)	
	2008	2007	**2008**	2007
Cash flows from operating activities:				
Income before income taxes	**¥ 21,795**	¥ 19,170	**$ 217,537**	$ 191,336
Adjustments to reconcile income before income taxes to net cash provided by (used in) operating activities				
Depreciation	**2,055**	1,991	**20,511**	19,872
Decrease in allowance for doubtful receivables	**(10)**	(189)	**(100)**	(1,886)
Interest and dividend income	**(1,920)**	(1,633)	**(19,164)**	(16,299)
Interest expense	**4,164**	3,233	**41,561**	32,269
Gain on sales of investments in securities	**(528)**	—	**(5,270)**	—
Increase in trade receivables	**(4,642)**	(50,719)	**(46,332)**	(506,228)
Increase in inventories	**(5,030)**	(11,409)	**(50,205)**	(113,874)
Increase in trade notes and accounts payable	**8,392**	20,212	**83,761**	201,737
Increase (decrease) in deposits received	**9,417**	(7,570)	**93,992**	(75,557)
Other, net	**(2,203)**	(735)	**(21,988)**	(7,336)
Subtotal	**31,490**	(27,649)	**314,303**	(275,966)
Cash flows during the year for:				
Interest and dividends received	**1,915**	1,795	**19,114**	17,916
Interest paid	**(4,106)**	(3,237)	**(40,982)**	(32,309)
Income taxes paid	**(7,869)**	(7,101)	**(78,541)**	(70,875)
Net cash provided by (used in) operating activities	**21,430**	(36,192)	**213,894**	(361,234)
Cash flows from investing activities:				
Decrease in time deposits, net	**4**	303	**40**	3,024
Additions to property and equipment	**(3,992)**	(2,593)	**(39,844)**	(25,881)
Proceeds from sale of property and equipment	**34**	14	**339**	140
Additions to investment securities	**(5,118)**	(5,489)	**(51,083)**	(54,786)
Proceeds from sale of investment securities	**1,812**	2,778	**18,086**	27,727
Decrease (increase) in short-term loans receivable, net	**(247)**	195	**(2,465)**	1,946
Additions to long-term loans receivable	**(15)**	(21)	**(150)**	(209)
Proceeds from long-term loans receivable	**205**	139	**2,046**	1,387
Other, net	**(1,126)**	(1,282)	**(11,239)**	(12,795)
Net cash used in investing activities	**(8,443)**	(5,956)	**(84,270)**	(59,447)
Cash flows from financing activities:				
Increase (decrease) in short-term loans payable, net	**(15,761)**	18,359	**(157,311)**	183,242
Increase (decrease) in commercial paper, net	**(500)**	17,500	**(4,990)**	174,668
Proceeds from long-term debt	**9,950**	27,100	**99,311**	270,486
Repayments of long-term debt	**(50)**	(26,450)	**(499)**	(263,998)
Payment of cash dividends	**(2,747)**	(2,116)	**(27,418)**	(21,120)
Cash dividends paid to minority interests in consolidated subsidiaries	**(17)**	(26)	**(170)**	(260)
Other, net	**(19)**	(42)	**(190)**	(419)
Net cash provided by (used in) financing activities	**(9,144)**	34,325	**(91,267)**	342,599
Effect of exchange rate changes on cash and cash equivalents	**107**	(943)	**1,068**	(9,412)
Net increase (decrease) in cash and cash equivalents	**3,950**	(8,766)	**39,425**	(87,494)
Cash and cash equivalents at beginning of year	**10,229**	18,986	**102,096**	189,500
Increase arising from inclusion in consolidation	**—**	9	**—**	90
Cash and cash equivalents at end of year	**¥ 14,179**	¥ 10,229	**$ 141,521**	$ 102,096

See accompanying Notes to Consolidated Financial Statements.

Notes to Consolidated Financial Statements

1. Basis of presenting consolidated financial statements

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

The accounts of overseas subsidiaries are based on their accounting records maintained in conformity with generally accepted accounting principles prevailing in the respective countries of domicile. The accompanying consolidated financial statements have been restructured and translated into English with some expanded descriptions from the consolidated financial statements of the Company prepared in accordance with Japanese GAAP and filed with the appropriate Local Finance Bureau of the Ministry of Finance as required by the Financial Instruments and Exchange Law. Some supplementary information included in the statutory Japanese language consolidated financial statements, but not required for fair presentation, is not presented in the accompanying consolidated financial statements.

The translation of the Japanese yen amounts into U.S. dollar amounts is included solely for the convenience of readers outside Japan, using the prevailing exchange rate at March 31, 2008, which was ¥100.19 to U.S.$1.00. The translations should not be construed as representations that the Japanese yen amounts have been, could have been or could in the future be converted into U.S. dollars at this or any other rate of exchange.

2. Significant accounting policies

Consolidation — The consolidated financial statements include the accounts of the Company and its twelve significant subsidiaries (together "the Companies"). The accounts of certain consolidated subsidiaries have been included on the basis of fiscal periods that ended three months or less prior to March 31, and significant transactions after these year-ends were appropriately adjusted in consolidation.

Intercompany transactions and accounts have been eliminated. The Company doesn't apply the equity method because non-consolidated subsidiaries and affiliated companies are immaterial.

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

Allowance for doubtful receivables — The allowance for doubtful receivables is provided to cover possible losses on collection. With respect to normal trade accounts receivable, it is stated at an amount based on the actual rate of historical bad debts, and for certain doubtful receivables, the uncollectible amount is individually estimated.

The allowance for doubtful receivables of overseas consolidated subsidiaries is determined by the estimates of management.

Securities — The Companies classify securities as (a) securities held for trading purposes (hereafter, "trading securities"), (b) debt securities intended to be held to maturity (hereafter, "held-to-maturity debt securities"), (c) equity securities issued by subsidiaries and affiliated companies, and (d) all other securities that are not classified in any of the above categories (hereafter, "available-for-sale securities").

The Companies do not hold trading securities and held-to-maturity debt securities. Equity securities issued by subsidiaries and affiliated companies which are not consolidated or accounted for using the equity method are stated at moving average cost. Available-for-sale securities with available fair market values are stated at fair market value. Unrealized gains and unrealized losses on these securities are reported, net of applicable income taxes, as a separate component of net assets. Realized gains on the sale of such securities are computed using moving average cost. Other available-for-sale securities are stated at moving average cost.

Inventories — Inventories are principally stated at the lower of cost or market value. Cost is determined by the moving average cost method or the specific identification cost method.

Property and equipment — Property and equipment are carried at cost. Recognized loss on impairment of long-lived assets has been deducted from acquisition costs. Depreciation is principally provided on the declining balance method over the estimated useful lives. Major renewals and improvements are capitalized. Maintenance, repairs and minor renewals are expensed as incurred.

Software costs — The Companies include software in intangibles and other assets and depreciate it using the straight-line method over the estimated useful life of five years.

Bond issue costs — Bond issue costs are charged to income as incurred.

Bonuses — The Company and its domestic consolidated subsidiaries follow the Japanese practice of paying bonuses to employees in June and December. At the balance sheet date, bonus liabilities are estimated and accounted for on an accrual basis.

Effective from the year ended March 31, 2007, the Company and its consolidated subsidiaries adopted the new accounting standard, "Accounting Standard for Directors' Bonuses" (Statement No. 4 issued by the Accounting Standards Board of Japan on November 29, 2005).

As a result of the adoption of this accounting standard, operating income, income before income taxes and minority interests were ¥154 million ($1,537 thousand) less for the year ended March 31, 2007 than the amount which would have been recorded under the method applied in the previous year.

In addition, the amount of bonuses to directors calculated for the year ended March 31, 2007 was recorded as an outstanding payment and included in "Other current liabilities."

Income taxes — The Companies recognize the tax effects of loss carryforwards and the temporary differences between the carrying amounts of assets and liabilities for tax and financial reporting. The asset and liability approach is used to recognize deferred tax assets and liabilities for the expected future tax consequences of the temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes.

The Company and its wholly owned domestic subsidiaries file consolidated tax returns.

Retirement benefits — Substantially all employees of the Company and its consolidated domestic subsidiaries are covered by qualified funded pension plans. The amount of the retirement benefit is, in general, based on length of service, base salary at the time of retirement, and cause of retirement. Annual contributions, which consist of normal cost and the amortization of prior service cost, are charged to income when paid.

Liabilities and expenses for severance and retirement benefits are determined based on the amounts actuarially calculated using certain assumptions.

Because pension assets exceeded the deduction for unrecognized actuarial differences and unrecognized prior service cost from projected benefit obligation in the Company, the excess amount was included in "other investments and noncurrent receivables" in the years ended March 31, 2008 and 2007.

Translation of foreign currencies — Receivables and payables denominated in foreign currencies are translated into Japanese yen at year-end rates.

Balance sheets of consolidated overseas subsidiaries are translated into Japanese yen at year-end rates, except for shareholders' equity accounts, which are translated at historical rates. Income statements of consolidated overseas subsidiaries are translated at average rates, except for transactions with the Company, which are translated at rates used by the Company.

The Companies report foreign currency translation adjustments in net assets.

Finance leases — Finance leases which do not transfer ownership and do not have bargain purchase provisions are accounted for in the same manner as operating leases in accordance with Japanese GAAP.

Derivatives and hedge accounting — The Company states derivative financial instruments at fair value and recognizes changes in the fair value as gains or losses unless the derivative financial instruments are used for hedging purposes.

If derivative financial instruments are used as hedges and meet certain hedging criteria, the Company defers the recognition of gains or losses resulting from the changes in the fair value of the derivative financial instruments until the related losses or gains on the hedged items are recognized.

Also, if interest rate swap agreements are used as hedges and meet certain hedging criteria, the net amount to be paid or received under the interest rate swap agreement is added to or deducted from the interest on the assets or liabilities for which the swap agreement was executed.

The following summarizes hedging derivative financial instruments used by the Company and items hedged:

Hedging instruments:
- Interest rate swap agreements
- Commodity futures contracts

Hedged items:
- Interest expense on borrowings
- Inventories and commitments

The Company evaluates hedge effectiveness by comparing the cumulative changes in cash flows or changes in the fair value of hedged items and the corresponding changes in the hedging derivative instruments.

Reclassifications — Certain prior year amounts have been reclassified to conform to the current year presentation.

Amounts per share — Computations of net income per share of common stock are based on the weighted average number of shares outstanding during each period. Diluted net income per share is not disclosed because potentially dilutive securities are not issued. The Japanese Corporate Law requires that the declaration of dividends be approved at the general meeting of shareholders held after the end of the fiscal year. Therefore, cash dividends per share shown in the consolidated statements of income reflect the dividends approved after the end of the fiscal year.

Accounting standard for statement of changes in net assets — Effective from the year ended March 31, 2007, the Companies adopted the new accounting standard, "Accounting Standard for Statement of Changes in Net Assets" (Statement No. 6 issued by the Accounting Standards Board of Japan on December 27, 2005), and "the Implementation Guidance for the Accounting Standard for Statement of Changes in Net Assets" (the Financial Accounting Standard Implementation Guidance No. 9 issued by the Accounting Standards Board of Japan on December 27, 2005), (collectively, the "Additional New Accounting Standards").

Accordingly, the Companies prepared the statement of changes in net assets for the year ended March 31, 2007 in accordance with the Additional New Accounting Standards.

Change in accounting policy —

Accounting standard for presentation of net assets in the balance sheet

Effective from the year ended March 31, 2007, the Company and its consolidated subsidiaries adopted the new accounting standard, "Accounting Standard for Presentation of Net Assets in the Balance Sheet" (Statement No. 5 issued by the Accounting Standards Board of Japan on December 9, 2005), and "the Implementation Guidance for the Accounting Standard for Presentation of Net Assets in the Balance Sheet" (the Financial Accounting Standard Implementation Guidance No. 8 issued by the Accounting Standards Board of Japan on December 9, 2005), (collectively, the "New Accounting Standards").

Under the New Accounting Standards, the balance sheet comprises three sections, which are the assets, liabilities and net assets sections. Previously, the balance sheet comprised the assets, liabilities, minority interests, as applicable, and the shareholders' equity sections.

Depreciation Methods Used for Amortization for Tangible Assets

Starting from this period, pursuant to an amendment to the Corporate Tax Law, the Company and its domestic consolidated subsidiaries have depreciated tangible assets acquired on and after April 1, 2007 in accordance with the method stipulated in the amended Corporation Tax Law. The impact of this change on profits or losses was insignificant.

(Additional Information)

Pursuant to an amendment to the Corporate Tax Law, after having fully depreciated tangible assets acquired on and before March 31, 2007 up to 5% of the acquisition cost, based on the prior Corporate Tax Law, the Company and its domestic subsidiaries have depreciated the difference between 5% of the acquisition cost and the memorandum price, using the straight line method over 5 years and expensed it as "Depreciation and amortization." The straight line depreciation starts from the next year following the year, when the book value of tangible assets acquired on and before March 31, 2007 reaches 5% of the acquisition cost. The impact of this change on profits or losses has been insignificant.

3. Securities

(A) The following tables summarize acquisition costs and book values (fair values) of available-for-sale securities with available fair values as of March 31, 2008 and 2007:

March 31, 2008

	Millions of yen			Thousands of U.S. dollars		
	Acquisition cost	Book value	Difference	Acquisition cost	Book value	Difference
Securities with book values exceeding acquisition costs:						
Equity securities	**¥ 10,068**	**¥ 19,444**	**¥ 9,376**	**$ 100,489**	**$ 194,071**	**$ 93,582**
Other securities:						
Equity securities	**¥ 5,088**	**¥ 4,534**	**¥ (554)**	**$ 50,783**	**$ 45,254**	**$ (5,529)**

March 31, 2007

	Millions of yen			Thousands of U.S. dollars		
	Acquisition cost	Book value	Difference	Acquisition cost	Book value	Difference
Securities with book values exceeding acquisition costs:						
Equity securities	¥ 11,184	¥ 30,341	¥ 19,157	$ 111,628	$ 302,835	$ 191,207
Other securities:						
Equity securities	¥ 259	¥ 215	¥ (44)	$ 2,585	$ 2,146	$ (439)

(B) The following tables summarize book values of securities whose fair values were not determinable as of March 31, 2008 and 2007:

(a) Equity securities issued by unconsolidated subsidiaries and affiliated companies

	Millions of yen		Thousands of U.S. dollars	
	2008	2007	**2008**	2007
	Book value	Book value	Book value	Book value
Equity securities issued by unconsolidated subsidiaries and affiliated companies	**¥ 2,343**	¥ 1,402	**$ 23,386**	$ 13,993

(b) Available-for-sale securities

Unlisted stocks	**¥ 1,742**	¥ 2,596	**$ 17,387**	$ 25,911
Unlisted foreign stocks	**1,202**	1,417	**11,997**	14,143
Preferred fund certificates	**2,000**	2,000	**19,962**	19,962
Investment in limited partnerships	**178**	196	**1,777**	1,956
Total	**¥ 5,122**	¥ 6,209	**$ 51,123**	$ 61,972

(C) Total sales of available-for-sale securities in the years ended March 31, 2008 and 2007 amounted to ¥1,338 million ($13,355 thousand) and ¥2,778 million ($27,727 thousand) respectively, and resulted in net gains of ¥212 million ($2,116 thousand) and break-even, respectively.

4. Derivatives

The Company enters into foreign exchange forward contracts, currency swap agreements and currency option agreements in its normal business to hedge foreign exchange risk associated with certain assets and liabilities denominated in foreign currencies. The Company enters into interest rate swap agreements to headge against fluctuations in future interest rates. The Company also enters into commodity futures contracts and commodity swaps as a means of hedging risks associated with certain inventories and commitments.

It is the Company's policy to use derivatives only for the purpose of reducing market risks associated with assets and liabilities.

Derivatives are subject to market risk and credit risk. Since the purpose of using derivatives is to reduce market risks associated with assets, liabilities and interest rates, the market risks of the derivatives are effectively offset. As the counterparties to derivatives are limited to major financial institutions, the Company does not anticipate any losses arising from credit risk.

Derivatives entered into by the Company have been in accordance with internal policies which regulate the authorization and credit limit amount. Each derivative transaction is periodically reported to the management, where an evaluation and analysis of the derivatives are made.

The contract or notional amounts of the derivatives, which are shown in the following table, do not represent the amounts exchanged by the parties and do not measure the Company's exposure to credit or market risks.

The following tables summarize market value information as of March 31, 2008 and 2007, for the derivatives to which hedge accounting has not been applied:

March 31, 2008

Currency related	Millions of yen			Thousands of U.S. dollars		
	Contract or notional amount	Fair value	Net recognized gains (losses)	Contract or notional amount	Fair value	Net recognized gains (losses)
Foreign exchange forward contracts:						
Selling						
U.S. dollars	¥ 12,670	¥ 12,663	¥ 7	$ 126,460	$ 126,390	$ 70
Other currencies	1,348	1,295	53	13,454	12,925	529
Buying						
U.S. dollars	19,132	18,792	(340)	190,957	187,564	(3,393)
Other currencies	1,444	1,384	(60)	14,413	13,814	(599)
Currency swap agreements:						
Japanese yen received for U.S. dollars	15,464	2,260	2,260	154,347	22,557	22,557
Total			¥ 1,920			$ 19,164

Commodity related	Millions of yen			Thousands of U.S. dollars		
	Contract or notional amount	Fair value	Net recognized gains (losses)	Contract or notional amount	Fair value	Net recognized gains (losses)
Futures:						
Petroleum						
Selling	¥ 6,259	¥ 6,276	¥ (17)	$ 62,471	$ 62,641	$ (170)
Buying	4,206	4,298	92	41,980	42,898	918
Non-ferrous metals						
Selling	14,647	14,744	(97)	146,192	147,160	(968)
Buying	10,647	10,470	(177)	106,268	104,502	(1,766)
Commodity swaps						
Petroleum						
Selling	2,563	(216)	(216)	25,581	(2,156)	(2,156)
Buying	5,802	167	167	57,910	1,667	1,667
Total			¥ (248)			$ (2,475)

March 31, 2007

Currency related

	Millions of yen			Thousands of U.S. dollars		
	Contract or notional amount	Fair value	Net recognized gains (losses)	Contract or notional amount	Fair value	Net recognized gains (losses)
Foreign exchange forward contracts:						
Selling						
U.S. dollars	¥ 9,758	¥ 9,759	¥ (1)	$ 97,395	$ 97,405	$ (10)
Other currencies	2,157	2,165	(8)	21,529	21,609	(80)
Buying						
U.S. dollars	8,819	8,839	20	88,023	88,222	199
Other currencies	4,439	4,508	69	44,306	44,995	689
Currency swap agreements:						
Japanese yen received for U.S. dollars	14,656	(943)	(943)	146,282	(9,412)	(9,412)
Total			¥ (863)			$ (8,614)

Commodity related

	Millions of yen			Thousands of U.S. dollars		
	Contract or notional amount	Fair value	Net recognized gains (losses)	Contract or notional amount	Fair value	Net recognized gains (losses)
Futures:						
Petroleum						
Selling	¥ 10,809	¥ 11,206	¥ (397)	$ 107,885	$ 111,847	$ (3,962)
Buying	5,440	5,716	276	54,297	57,052	2,755
Frozen seafoods						
Buying	1	1	—	10	10	—
Non-ferrous metals						
Selling	9,823	10,113	(290)	98,043	100,938	(2,895)
Buying	6,278	6,856	578	62,661	68,430	5,769
Commodity swaps						
Petroleum						
Selling	2,030	(60)	(60)	20,262	(599)	(599)
Buying	7,371	141	141	73,570	1,407	1,407
Total			¥ 248			$ 2,475

5. Pledged assets

At March 31, 2008 and 2007, assets pledged as collateral for short-term loans payable in the amount of nothing and ¥114 million ($1,138 thousand), respectively, and guarantees were as follows:

	Millions of yen		Thousands of U.S. dollars	
	2008	2007	**2008**	2007
Other current assets	**¥ 13**	¥ 13	**$ 130**	$ 130
Investment securities	**1,963**	2,818	**19,593**	28,126
Property and equipment, net of accumulated depreciation	**—**	481	**—**	4,801
Intangibles	**—**	66	**—**	659
Total	**¥ 1,976**	¥ 3,378	**$ 19,723**	$ 33,716

6. Short-term loans payable, commercial paper and long-term debt

The weighted average interest rate applicable to short-term loans outstanding at March 31, 2008 and 2007 was 2.86% and 1.95%, respectively.

The Company has entered into a yen domestic commercial paper program. There was an outstanding balance of ¥17,000 million ($169,678 thousand) and ¥17,500 million ($174,668 thousand) at March 31, 2008 and 2007,respectively.

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

	Millions of yen		Thousands of U.S. dollars	
	2008	2007	**2008**	2007
Issued in 2005, 0.96% unsecured straight bonds, due 2008	**¥ 10,000**	¥ 10,000	**$ 99,810**	$ 99,810
Issued in 2007, 1.53% unsecured straight bonds, due 2010	**10,000**	—	**99,810**	—
Loans from banks with weighted average interest rates of 1.67% and 1.43% at March 31, 2008 and 2007, respectively, maturing serially through 2014	**101,950**	102,000	**1,017,567**	1,018,066
Less amounts due within one year	**32,625**	50	**325,631**	499
	¥ 89,325	¥ 111,950	**$ 891,556**	$ 1,117,377

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

Years ending March 31,	Millions of yen	Thousands of U.S. dollars
2009	¥ 32,625	$ 325,631
2010	23,675	236,301
2011	33,550	334,864
2012	11,200	111,787
2013	—	—
Thereafter	20,900	208,604
Total	¥ 121,950	$ 1,217,187

7. Employees' severance and retirement benefits

The liabilities for severance and retirement benefits included in the liability section of the consolidated balance sheets as of March 31, 2008 and 2007 consisted of the following:

	Millions of yen		Thousands of U.S. dollars	
	2008	2007	**2008**	2007
Projected benefit obligation	**¥ 19,723**	¥ 19,066	**$ 196,856**	$ 190,298
Less fair value of pension assets	**(17,333)**	(16,915)	**(173,001)**	(168,829)
Unrecognized actuarial differences	**(5,721)**	(3,996)	**(57,101)**	(39,884)
Unrecognized prior service costs	**(868)**	(949)	**(8,664)**	(9,472)
Prepaid pension costs	**4,208**	2,802	**42,000**	27,967
Liability for severance and retirement benefits	**¥ 9**	¥ 8	**$ 90**	$ 80

Included in the consolidated statements of income for the years ended March 31, 2008 and 2007 were severance and retirement benefit expenses that comprised the following:

	Millions of yen		Thousands of U.S. dollars	
	2008	2007	**2008**	2007
Service costs - benefits earned during the year	**¥ 660**	¥ 633	**$ 6,587**	$ 6,318
Interest costs on projected benefit obligation	**379**	366	**3,783**	3,653
Expected return on plan assets	**(504)**	(439)	**(5,030)**	(4,382)
Amortization of actuarial differences	**441**	424	**4,402**	4,232
Amortization of prior service costs	**81**	81	**808**	808
Additional retirement benefits	**28**	20	**279**	200
Severance and retirement benefit expenses	**¥ 1,085**	¥ 1,085	**$ 10,829**	$ 10,829

Prior service costs and actuarial differences are amortized or recognized over a stated number of years that does not exceed the average remaining service period of active employees expected to receive benefits under the plan.

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

	2008	2007
Discount rate	**2.0%**	2.0%
Expected rate of return on plan assets	**3.0%**	3.0%
Amortization period of prior service costs	**14 years**	14 years
Amortization period of actuarial differences	**14 years**	14 years

8. Income taxes

The Company is subject to a number of taxes based on income, which, in the aggregate, indicate an aggregate statutory income tax rate in Japan of approximately 40.7% for the years ended March 31, 2008 and 2007.

The reconciliation of the difference between the statutory tax rate and the effective tax rate for the years ended March 31, 2008 and 2007 has not been disclosed because such difference was less than 5%.

Significant components of the Companies' deferred tax assets and liabilities as of March 31, 2008 and 2007 were as follows:

	Millions of yen		Thousands of U.S. dollars	
	2008	2007	**2008**	2007
Deferred tax assets:				
Temporary differences pertaining to a consolidated subsidiary	**¥ 23,864**	¥ 23,911	**$ 238,188**	$ 238,657
Loss on impairment of long-lived assets	**2,390**	2,419	**23,855**	24,144
Loss on sale-repurchase agreement of land	**1,719**	1,719	**17,157**	17,157
Land revaluation difference, net of taxes	**1,667**	1,667	**16,638**	16,638
Accrued bonuses to employees	**715**	686	**7,136**	6,847
Other	**3,739**	3,386	**37,319**	33,796
Total deferred tax assets	**34,094**	33,788	**340,293**	337,239
Valuation allowance	**(30,890)**	(31,117)	**(308,314)**	(310,580)
Net deferred tax assets	**3,204**	2,671	**31,979**	26,659
Deferred tax liabilities:				
Unrealized gains on securities, net of taxes	**3,332**	7,825	**33,257**	78,102
Land revaluation difference, net of taxes	**2,799**	2,799	**27,937**	27,937
Prepaid pension costs	**1,712**	1,140	**17,087**	11,378
Other	**270**	778	**2,695**	7,765
Total deferred tax liabilities	**8,113**	12,542	**80,976**	125,182
Net deferred tax liabilities	**¥ (4,909)**	¥ (9,871)	**$ (48,997)**	$ (98,523)

Deferred tax assets and deferred tax liabilities were included in the consolidated balance sheets at March 31, 2008 and 2007, respectively, as follows:

	Millions of yen		Thousands of U.S. dollars	
	2008	2007	**2008**	2007
Current assets: Deferred tax assets	**¥ 1,823**	¥ 1,097	**$ 18,195**	$ 10,949
Other assets: Deferred tax assets	**69**	10	**689**	100
Current liabilities: Deferred tax liabilities	**—**	—	**—**	—
Noncurrent liabilities: Deferred tax liabilities	**6,801**	10,978	**67,881**	109,572

9. Net assets

Net assets comprises three subsections, which are owners' equity, accumulated gains (losses) from valuation and translation adjustments and minority interests.

The Japanese Corporate Law ("the Law") became effective on May 1, 2006, replacing the Japanese Commercial Code ("the Code"). The Law is generally applicable to events and transactions occurring after April 30, 2006 and for fiscal years ending after that date.

Under the Law, in cases where a dividend distribution of surplus is made, the smaller of an amount equal to 10% of the dividend or the excess, if any, of 25% of common stock over the total of additional paid-in capital and legal earnings reserve must be set aside as additional paid-in capital or legal earnings reserve. Legal earnings reserve is included in retained earnings in the accompanying consolidated balance sheets.

Under the Code, companies were required to set aside an amount equal to at least 10% of the aggregate amount of cash dividends and other cash appropriations as legal earnings reserve until the total of legal earnings reserve and additional paid-in capital equaled 25% of common stock.

Under the Code, legal earnings reserve and additional paid-in capital could be used to eliminate or reduce a deficit by a resolution of the shareholders' meeting or could be capitalized by a resolution of the Board of Directors. Under the Law, both of these appropriations generally require a resolution of the shareholders' meeting.

Additional paid-in capital and legal earnings reserve may not be distributed as dividends. Under the Code, however, on condition that the total amount of legal earnings reserve and additional paid-in capital remained equal to or exceeded 25% of common stock, they were available for distribution by resolution of the shareholders' meeting. Under the Law, all additional paid-in capital and all legal earnings reserve may be transferred to other capital surplus and retained earnings, respectively, which are potentially available for dividends.

The maximum amount that the Company can distribute as dividends is calculated based on the non-consolidated financial statements of the Company in accordance with Japanese laws and regulations.

At the annual shareholders' meeting held on June 27, 2008, the shareholders approved cash dividends amounting to ¥1,268 ($12,656 thousand). This appropriation has not been accrued in the consolidated financial statements as of March 31, 2008. Such appropriations are recognized in the period in which they are approved by the shareholders.

Land revaluation difference — Pursuant to the Law Concerning Land Revaluation, the Company revaluated land used for business activities at March 31, 2002.

Unrealized gain (loss) on land revaluation is recorded as land revaluation difference in a separate component of net assets of the consolidated balance sheets until realized. The amounts are shown net of applicable income tax.

The revaluation of the land was determined based on a declared land value, with certain necessary adjustments, in accordance with Article 2, Paragraph 1 of the Enforcement Ordinance Concerning Land Revaluation.

As of March 31, 2008, the carrying amount of the land after the above one-time revaluation exceeded the market value by ¥1,201 million ($11,987 thousand).

10. Leases

Finance leases

As lessee

Total lease payments, including financing charges, under finance leases that do not transfer ownership of the leased property to the Company and its consolidated subsidiaries for the years ended March 31, 2008 and 2007 were ¥572 million ($5,709 thousand) and ¥526 million ($5,250 thousand), respectively.

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

As of March 31, 2008

	Millions of yen			Thousands of U.S. dollars		
	Acquisition cost	Accumulated depreciation	Net leased property	Acquisition cost	Accumulated depreciation	Net leased property
Other property and equipment	**¥ 1,929**	**¥ 903**	**¥ 1,026**	**$ 19,254**	**$ 9,013**	**$ 10,241**
Other assets	**95**	**64**	**31**	**948**	**639**	**309**
Total	**¥ 2,024**	**¥ 967**	**¥ 1,057**	**$ 20,202**	**$ 9,652**	**$ 10,550**

As of March 31, 2007

	Millions of yen			Thousands of U.S. dollars		
	Acquisition cost	Accumulated depreciation	Net leased property	Acquisition cost	Accumulated depreciation	Net leased property
Other property and equipment	¥ 1,961	¥ 821	¥ 1,140	$ 19,573	$ 8,195	$ 11,378
Other assets	153	94	59	1,527	938	589
Total	¥ 2,114	¥ 915	¥ 1,199	$ 21,100	$ 9,133	$ 11,967

Depreciation expense and interest expense for finance leases that do not transfer ownership of the leased property are not reflected in the accompanying consolidated statements of income. Depreciation expense, computed by the straight-line method, was ¥516 million ($5,150 thousand) and ¥492 million ($4,911 thousand) for the years ended March 31, 2008 and 2007, respectively. Interest expense, computed by the interest method, was ¥35 million ($349 thousand) and ¥33 million ($329 thousand) for the years ended March 31, 2008 and 2007, respectively.

Obligations, excluding financing charges, under such non-capitalized finance leases as of March 31, 2008 and 2007 were as follows:

	Millions of yen		Thousands of U.S. dollars	
	2008	2007	**2008**	2007
Due within one year	**¥ 420**	¥ 485	**$ 4,192**	$ 4,841
Due after one year	**659**	722	**6,578**	7,206
Total	**¥ 1,079**	¥ 1,207	**$ 10,770**	$ 12,047

Operating leases

As Lessee

Obligations under operating leases as of March 31, 2008 and 2007, were as follows:

	Millions of yen		Thousands of U.S. dollars	
	2008	2007	**2008**	2007
Due within one year	**¥ 35**	¥ 21	**$ 349**	$ 210
Due after one year	**136**	81	**1,358**	808
Total	**¥ 171**	¥ 102	**$ 1,707**	$ 1,018

11. Segment information

Industry segment information

The Company changed its segment classifications to six industry segments comprising of the Steel Segment, the Metals and alloys Segment, the Non-ferrous metals Segment, the Foods Segment, the Petroleum and chemicals Segment and the Other business Segment for the year ended March 31, 2008, compared to the five industry segments comprising of the Steel Segment, the Non-ferrous metals Segment, the Foods Segment, the Petroleum and chemicals Segment and the Other business Segment for the year ended March 31, 2007.

The six industry segments for the year ended March 31, 2008 were comprised of the following:

Steel: Steel bars and shapes, steel plates and sheets, special steels, wire products, steel pipes, and steelmaking raw materials
Metals and Alloys: Nickel, chromium, steel alloys, and solar cell-related materials and products
Non-ferrous metals: Aluminium, copper, zinc
Foods: Frozen seafoods and meat products
Petroleum and chemicals: Petroleum products, chemical products, and cement
Other business: Lumber, machinery, and other

The five industry segments for the year ended March 31, 2007 were as follows:

Steel: Steel bars and shapes, steel plates and sheets, special steels, wire products, steel pipes, and steelmaking raw materials
Non-ferrous metals: Nickel,copper, aluminium, lead, zinc, tin, antimony, other metals, and solar cell-related materials and products
Foods: Frozen seafoods and meat products
Petroleum and chemicals: Petroleum products, chemical products, and cement
Other business: Lumber, machinery, and other

Because the ratio of Net sales and Operating profit of the Non-ferrous metals Segment to all the segments have incresed, the Non-ferrous metals Segment was divided into the Non-ferrous metals Segment and the Metals and alloys Segment from this fiscal year for the purpose of increase the usefulness of the Segment information. Previously, Nickel, Chromium and the other metals were included in the Non-ferrous metals Segment. The amount for 2007 has been restated to comform to the current year presentation.

Segment information by business category for the years ended March 31, 2008 and 2007 was as follows:

Year ended March 31, 2008

	Millions of yen								
	Steel	Metals and alloys	Non-ferrous metals	Foods	Petroleum and chemicals	Other business	Total	Corporate	Consolidated
Net sales	¥ 790,341	¥ 202,019	¥ 65,345	¥ 84,671	¥ 311,481	¥ 53,652	¥ 1,507,509	¥ —	¥ 1,507,509
Costs and expenses	774,466	195,399	63,330	83,894	308,935	52,228	1,478,252	5,552	1,483,804
Operating income	¥ 15,875	¥ 6,620	¥ 2,015	¥ 777	¥ 2,546	¥ 1,424	¥ 29,257	¥ (5,552)	¥ 23,705
Assets	¥ 274,802	¥ 47,867	¥ 14,762	¥ 31,166	¥ 35,381	¥ 12,759	¥ 416,737	¥ 65,277	¥ 482,014
Depreciation	1,408	24	51	28	31	432	1,974	81	2,055
Capital expenditure	3,795	48	44	31	36	375	4,329	68	4,397

Year ended March 31, 2008

	Thousands of U.S. dollars								
	Steel	Metals and alloys	Non-ferrous metals	Foods	Petroleum and chemicals	Other business	Total	Corporate	Consolidated
Net sales	$ 7,888,422	$ 2,016,359	$ 652,211	$ 845,104	$ 3,108,903	$ 535,503	$15,046,502	$ —	$15,046,502
Costs and expenses	7,729,973	1,950,285	632,099	837,349	3,083,491	521,290	14,754,487	55,415	14,809,902
Operating income	$ 158,449	$ 66,074	$ 20,112	$ 7,755	$ 25,412	$ 14,213	$ 292,015	$ (55,415)	$ 236,600
Assets	$ 2,742,809	$ 477,762	$ 147,340	$ 311,069	$ 353,139	$ 127,348	$ 4,159,467	$ 651,532	$ 4,810,999
Depreciation	14,053	240	509	280	309	4,312	19,703	808	20,511
Capital expenditure	37,878	479	439	310	359	3,743	43,208	679	43,887

Corporate costs and expenses mainly consist of expenses of administrative departments.

Corporate assets mainly consist of cash and cash equivalents, investment securities and assets of administrative departments.

Year ended March 31, 2007

	Millions of yen								
	Steel	Metals and alloys	Non-ferrous metals	Foods	Petroleum and chemicals	Other business	Total	Corporate	Consolidated
Net sales	¥ 689,188	¥ 177,554	¥ 65,398	¥ 91,954	¥ 237,343	¥ 58,585	¥ 1,320,022	¥ —	¥ 1,320,022
Costs and expenses	674,852	172,554	63,154	91,363	235,110	56,544	1,293,577	5,580	1,299,157
Operating income	¥ 14,336	¥ 5,000	¥ 2,244	¥ 591	¥ 2,233	¥ 2,041	¥ 26,445	¥ (5,580)	¥ 20,865
Assets	¥ 253,363	¥ 45,196	¥ 19,086	¥ 37,831	¥ 34,647	¥ 18,904	¥ 409,027	¥ 67,152	¥ 476,179
Depreciation	1,380	22	45	30	28	404	1,909	82	1,991
Capital expenditure	1,765	13	178	29	37	347	2,369	44	2,413

Year ended March 31, 2007

	Thousands of U.S. dollars								
	Steel	Metals and alloys	Non-ferrous metals	Foods	Petroleum and chemicals	Other business	Total	Corporate	Consolidated
Net sales	$ 6,878,810	$ 1,772,173	$ 652,740	$ 917,796	$ 2,368,929	$ 584,739	$13,175,187	$ —	$13,175,187
Costs and expenses	6,735,722	1,722,268	630,342	911,898	2,346,641	564,368	12,911,239	55,694	12,966,933
Operating income	$ 143,088	$ 49,905	$ 22,398	$ 5,898	$ 22,288	$ 20,371	$ 263,948	$ (55,694)	$ 208,254
Assets	$ 2,528,825	$ 451,103	$ 190,498	$ 377,593	$ 345,813	$ 188,681	$ 4,082,513	$ 670,247	$ 4,752,760
Depreciation	13,774	220	449	300	279	4,032	19,054	818	19,872
Capital expenditure	17,617	130	1,777	289	369	3,463	23,645	439	24,084

Corporate costs and expenses mainly consist of expenses of administrative departments.

Corporate assets mainly consist of cash and equivalents, investment securities and assets of administrative departments.

Overseas net sales

Overseas net sales include exports and offshore sales by the Company and its consolidated subsidiaries, excluding sales by foreign subsidiaries to Japan.

Regional segment information

The Companies operate mainly within Japan, so regional segment information is not disclosed.

Overseas net sales of the Companies for the years ended March 31, 2008 and 2007 were as follows:

Year ended March 31, 2008

	Millions of yen			Thousands of U.S. dollars		
	Asia	Other areas	Total	Asia	Other areas	Total
Overseas net sales	**¥ 280,217**	**¥ 44,088**	**¥ 324,305**	**$ 2,796,856**	**$ 440,044**	**$ 3,236,900**
Percentage of consolidated net sales	**18.6%**	**2.9%**	**21.5%**			

"Asia" sales consists principally of sales to China, South Korea, Singapore and Thailand.
"Other areas" sales consist principally of sales to Germany and the U.S.A..

Year ended March 31, 2007

	Millions of yen			Thousands of U.S. dollars		
	Asia	Other areas	Total	Asia	Other areas	Total
Overseas net sales	¥ 231,101	¥ 39,781	¥ 270,882	$ 2,306,627	$ 397,056	$ 2,703,683
Percentage of consolidated net sales	17.5%	3.0%	20.5%			

"Asia" sales consists principally of sales to China, South Korea, Singapore and Thailand.
"Other areas" sales consist principally of sales to the U.S.A. and Germany.

12. Contingent liabilities

At March 31, 2008 and 2007, the Companies were contingently liable as follows:

	Millions of yen		Thousands of U.S. dollars	
	2008	2007	**2008**	2007
As endorsers of export letters of credit and notes discounted	**¥ 4,594**	¥ 4,116	**$ 45,853**	$ 41,082
As guarantors of indebtedness	**2,691**	2,350	**26,859**	23,455

13. Related party transactions

Transactions with a close relative of directors of the Company and a non-consolidated subsidiary for the years ended March 31, 2008 and 2007 were as follows:

	Millions of yen		Thousands of U.S. dollars	
A close relative of directors	**2008**	2007	**2008**	2007
Real estate				
Rents received	**¥ —**	¥ 6	**$ —**	$ 60

	Millions of yen		Thousands of U.S. dollars	
A non-consolidated subsidiary	**2008**	2007	**2008**	2007
Steel products				
Sale	**¥ —**	¥ 8,558	**$ —**	$ 85,418

14. Subsequent events

At the ordinary general meeting of shareholders of the Company held on June 27, 2008, the following appropriation of retained earnings was approved:

	Millions of yen	Thousands of U.S. dollars
Cash dividends (¥6 per share)	¥ 1,268	$ 12,656

KPMG

Independent Auditors' Report

To the Shareholders and Board of Directors of
Hanwa Co., Ltd.:

We have audited the accompanying consolidated balance sheets of Hanwa Co., Ltd. (a Japanese corporation) and consolidated subsidiaries as of March 31, 2008 and 2007, and the related consolidated statements of income, changes in net assets and cash flows for the years then ended, expressed in Japanese yen. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to independently express an opinion on these consolidated financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Hanwa Co., Ltd. and subsidiaries as of March 31, 2008 and 2007, and the consolidated results of their operations and their cash flows for the years then ended, in conformity with accounting principles generally accepted in Japan.

Without qualifying our opinion, we draw attention to Note 11 to the consolidated financial statements. Effective March 31, 2008, Hanwa Co., Ltd. and its consolidated subsidiaries have reclassified their industry segments.

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the years ended March 31, 2008 and 2007 are presented solely for convenience. Our audit also included the translation of yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 1 to the consolidated financial statements.

Osaka, Japan
June 27, 2008

KPMG AZSA & Co.

Corporate Data

Company Name: Hanwa Co., Ltd. 阪和興業株式会社

Address: **Osaka Head Office**
Hanwa Bldg., 4-3-9 Fushimi-machi, Chuo-ku, Osaka 541-8585, Japan
Tel: 81-6-6206-3000 Fax: 81-6-6206-3365

Tokyo Head Office
New Hanwa Bldg., 1-13-10 Tsukiji, Chuo-ku, Tokyo 104-8429, Japan
Tel: 81-3-3544-2171 Fax: 81-3-3544-2351

Nagoya Branch Office
NHK Nagoya Broadcasting Center Bldg.,
1-13-3, Higashisakura, Higashi-ku, Nagoya 461-8614, Japan
Tel: 81-52-952-8800 Fax: 81-52-952-9300

Employee: 1,027 (consolidated: 1,715)

Independent Auditor: KPMG AZSA & Co.

Domestic Offices

OFFICE	ADDRESS	TELEPHONE	FAX
Hokkaido	Kita-sanjo Bldg., 3-1-25, Kita-sanjo Nishi, Chuo-ku, Sapporo 060-0003, Japan	81-11-219-7375	81-11-219-7376
Tohoku	Sendai Daiichi Seimei Tower Bldg., 4-6-1 Ichiban-cho, Aoba-ku, Sendai 980-0811, Japan	81-22-227-7981	81-22-227-7969
Niigata	Hokuetsu-daiichi Bldg., 1-2-25, Higashi Oodouri, Chuo-ku, Niigata 950-0087, Japan	81-25-255-1777	81-25-255-1776
Kyushu	Taihaku Center Bldg., 2-19-24 Hakata-eki mae, Hakata-ku, Fukuoka, 812-0011, Japan	81-92-471-7121	81-92-471-7060
Hiroshima	Hiroshima-fukuromachi Bldg., 5-25, Fukuro-machi, Naka-ku, Hiroshima 730-0036, Japan	81-82-543-2570	81-82-543-2561

Overseas Offices

OFFICE	ADDRESS	TELEPHONE	FAX
North and South America			
New York	Parker Plaza, 12th Floor, 400 Kelby Street, Fort Lee, NJ 07024, U.S.A.	1-201-363-4500	1-201-346-9890
Seattle	601 Union Street, Suite 626, Seattle, WA 98101, U.S.A.	1-206-622-2102	1-206-622-6464
Houston	Suite 515, 9800 Richmond Avenue, Houston, TX 77042, U.S.A.	1-713-978-7904	1-713-978-7790
Los Angeles	18100 Von Karman, suite 320, Irvine, CA 92612, U.S.A.	1-949-955-2780/2781	1-949-955-2785
Vancouver	Suite 502, 1001 West Broadway Vancouver, B.C. V6H 4B1, Canada	1-604-876-1175	1-604-876-1085
Bogota	Carrera 9A No. 99-02, Oficina 804 Edificio Citibank, Bogota, D.C. Colombia	57-1-618-2059	57-1-618-2056
Asia			
Seoul	Room 1705, Korea World Trade Center Bldg., 159-1, Samsung-Dong, Kangnam-ku, Seoul, 135-729, R.O.Korea	82-2-551-5387	82-2-551-5575
Beijing	Room 1201, Beijing Fortune Bldg., 5 Dong San Huan Bei-lu, Chaoyang District, Beijing 100004, P.R.China	86-10-6590-8333	86-10-6590-8340
Qingdao	Crowne Plaza Qingdao, Room No.601, Hongkong Middle Road 76, Qingdao City, Shangdon 266071, P.R.China	86-532-8-577-9990	86-532-8-577-9630
Dalian	Senmao Bldg., 20F, 147 Zhongshan Street, Dalian City, Liaoning 116011, P.R.China	86-411-8-368-6954	86-411-8-368-6934
Shanghai	Room 902/904-907, Aetna Tower,No.107 Zhunyi Road, Shanghai 200051, P.R.China	86-21-6237-5260	86-21-6237-5268
Chongqing	Room 2203, Metropolitan Tower, 68 Zhou Rong Lu, Central District, Chongqing 400010, P.R.China	86-23-6381-1101	86-23-6381-7385
Fuzhou	Room 2501, Lippo Tianma Plaza, No.1 Wu Yi Road, Fuzhou City, Fujian 350003, P.R. China	86-591-8-3354165	86-591-8-3345202
Guangzhou	Unit 3701-3704, Profit Plaza, No. 76 Westhuangpu Road, Guangzhou City, Guangdong 510623, P.R. China	86-20-8732-0451	86-20-8732-0402
Wuhan	Room 18H, Credit Cooperative Bldg., No. 618 Jianshe Road, Wuhan 430015, P.R.China	86-27-8549-7132	86-27-8578-7196
Dongguan	Suites1504-1505, 15F, HuiCheng Build., 102 Hong Fu Road, Nan Cheng District, Dongguan City, Guangdong 523000, P.R. China	86-769-2240-6418	86-769-2240-6448
Zhongshan	Unit 1909-1910, 19th Floor, Bank Of China Tower, 18 Zhongshan 3rd Road, Zhongshan City, Guangdong, P.R.China	86-760-2-332-0706	86-760-2-332-0696
Hong Kong	Suites 2301-02 & 16, 23F, Cityplaza One 1111 King's Road, Tai Koo Shing Island East, Hong Kong	852-25450110	852-25422544
Taipei	Room 303, 3rd Floor. No. 79, Chung Shan North Road Sec.2, Taipei, Taiwan	886-2-2560-2214	886-2-2571-0693
Kaohsiung	Room B, 17th Floor, No.7 Su-Wei 4th Road, Kaohsiung, Taiwan	886-7-338-5508	886-7-338-5433
Bangkok	12th Floor, Unit 1204, Q.House Lumpini Bldg., 1 South Sathorn Road, Tungmahamek, Sathorn, Bangkok 10120, Thailand	66-2-343-8877	66-2-343-8878
Kuala Lumpur	Suite 8-12B-3, Level 14 (12B), Menara Olympia 8, Jalan Raja Chulan, 50200 Kuala Lumpur, Malaysia	60-3-2078-2311	60-3-2078-2380
Singapore	20 Cecil Street, #20-06/07 Equity Plaza, Singapore, 049705	65-6536-7822	65-6536-7855
Tawau	P.O. Box 1231 91037 Tawau, Sabah, Malaysia	60-89-750016	60-89-750019
Ho Chi Minh	7/C Office Service International Centre Bldg., No. 8 Nguyen Hue BLVD., District 1, Ho Chi Minh City, S.R. Vietnam	84-8-8225715	84-8-8225725
Hanoi	Room 1509, 671 Hoang Hoa Tham, Ba Dinh, Ha Noi, S.R. Vietnam	84-4-7617632	84-4-7617632
Jakarta	Menara Cakrawala 5th Floor Jalan M.H. Thamrin No. 9, Jakarta 10340, Indonesia	62-21-39833211	62-21-39833212
Mumbai	Unit No.208, 2nd Floor, B-Wing, Dynasty Business Park, 58, Andheri Kurla Rd. Andheri (E), Mumbai 400 069	91-22-2826-0884	91-22-2826-1097
New Delhi	203, Bestech Chambers, B Block, Sushant Lok 1, Gurgaon, Haryana INDIA 122002	91-124-456-6100	91-124-456-6111
Europe, Africa and Middle East			
London	2nd Floor, Finland House, 56 Haymarket, London, SW1Y 4RN U.K.	44-20-7839-4448	44-20-7839-3994
Wien	Landstrasser Hauptstrasse 71/2 A1030, Wien, Austria	43-1-717-28-200	43-1-717-28-110
Kuwait	c/o Al-Sabih Engineering & Trading Co., P.O. Box No. 1114 Dasman, 15462 Dasman, Kuwait Room 24, 6th Floor, Danat Trading Center, Abdulla Al-Ahmad Street, Sharq, Kuwait	965-243-7259	965-243-7263
Riyadh	P.O. Box 68974, Riyadh 11537, Saudi Arabia	966-1-473-1563	966-1-473-5624
Jeddah	c/o Office No. 219, Kaki Center P.O. Box 1224, Jeddah 21431, Saudi Arabia	966-2-661-0796	966-2-661-0796
Dammam	c/o Office No.1, 1st Floor, Al-Hammam Center for Trading King Fahad Bin Abdul Aziz Road, Dammam, Saudi Arabia	966-3-8411745	966-3-8467937
Dubai	Dubai Airport Free zone, Bldg., No. 6EA, 5th Floor, Room No. 506 P.O.Box 293873 Dubai, U.A.E.	971-4-609-1893	971-4-609-1895
Amsterdam	WTC Tower A-11F, Strawingskylaan 1111, 1077XX, Amsterdam, The Netherlands	31-20575-2460	31-20575-2461

Board of Directors
(As of July 1, 2008)

President
Shuji Kita 北　修爾

Senior Managing Directors
Hironari Furukawa 古川　弘成
Tetsuro Akimoto 秋元　哲郎

Managing Directors
Yoshifumi Nishi 西　吉史
Takuji Kita 北　卓治
Hideo Kawanishi 川西　英夫

Directors
Osamu Seki 関　收
Takaharu Tada 多田　孝治
Kazuhisa Majime 馬締　和久
Masataka Toyoda 豊田　雅孝
Hiroshi Serizawa 芹澤　浩
Hiroaki Tsujinaka 辻仲　弘明
Hiroshi Ebihara 海老原　弘
Yukio Saito 齋藤　幸雄
Akihiko Ogasawara 小笠原朗彦
Yoshiaki Matsuoka 松岡　良明
Tadahiko Kaida 貝田　忠彦
Toshiaki Shirakawa 白川　敏昭
Teruo Asai 浅井　照夫
Atsuhiro Moriguchi 森口　淳宏

Corporate Auditors
Noriyuki Hanafusa 花房　伯行
Toshiaki Taguchi 田口　敏明
Hajime Yosano 与謝野　肇
Masanori Kobayashi 小林　正典

Investor Information
(As of March 31, 2008)

Date of Establishment
April 1947

Stated Capital
¥45,651 million ($455,644 thousand)

Number of Shares of Common Stock Issued
211,663,200 shares

Number of Stockholders
15,595

Stock Exchange Listings
The First Section of the Tokyo Stock Exchange
The First Section of the Osaka Securities Exchange

Transfer Agent
The Sumitomo Trust and Banking Co., Ltd.

HANWA CO., LTD.
http://www.hanwa.co.jp

2008.8.Printed in Japan