# Consolidated Financial Statements

## Toho Zinc Co., Ltd.
## and Consolidated Subsidiaries

***For the years ended March 31, 2008, 2007 and 2006***
***with Report of Independent Auditors***
***for the year ended March 31, 2008***

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# Report of Independent Auditors

The Board of Directors
Toho Zinc Co., Ltd.

We have audited the accompanying consolidated balance sheets of Toho Zinc Co., Ltd. and consolidated subsidiaries as of March 31, 2008, and the related consolidated statements of income, changes in net assets, and cash flows for the year then ended, all expressed in yen. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits. The consolidated financial statements of Toho Zinc Co., Ltd. and consolidated subsidiaries for the years ended March 31, 2007 and 2006 were audited by other auditors whose report dated June 28, 2007, expressed an unqualified opinion on those financial statements.

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 financial statements referred to above present fairly, in all material respects, the consolidated financial position of Toho Zinc Co., Ltd. and consolidated subsidiaries at March 31, 2008, and the consolidated results of their operations and their cash flows for the year then ended in conformity with accounting principles generally accepted in Japan.

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2008 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 2.

Ernst & Young ShinNihon

June 19, 2008

Toho Zinc Co., Ltd. and Consolidated Subsidiaries

Consolidated Balance Sheets

| | March 31, 2007 | March 31, 2008 | March 31, 2008 |
|---|---|---|---|
| | *(Millions of yen)* | | *(Thousands of U.S. dollars)* |
| **Assets** | | | |
| Current assets: | | | |
| Cash and time deposits | ¥ 13,267 | **¥ 14,358** | **$ 143,307** |
| Notes and accounts receivable, trade | 31,599 | **20,121** | **200,827** |
| Inventories *(Note 17)* | 20,530 | **26,516** | **264,658** |
| Advance payment | 2,141 | **5,247** | **52,374** |
| Deferred tax assets *(Note 13)* | 2,668 | **539** | **5,387** |
| Other current assets | 2,279 | **3,007** | **30,014** |
| Allowance for doubtful accounts | (113) | **(52)** | **(524)** |
| Total current assets | 72,371 | **69,736** | **696,043** |
| Property, plant and equipment: | | | |
| Land *(Notes 4 and 18)* | 16,914 | **16,960** | **169,281** |
| Buildings and structures *(Note 18)* | 18,010 | **18,589** | **185,536** |
| Machinery and equipment *(Note 18)* | 53,990 | **55,055** | **549,498** |
| Construction in progress | 650 | **763** | **7,626** |
| Other | – | **–** | **–** |
| | 89,564 | **91,367** | **911,941** |
| Accumulated depreciation | (55,519) | **(56,991)** | **(568,835)** |
| | 34,045 | **34,376** | **343,106** |
| Investments and other assets: | | | |
| Investment securities *(Notes 10 and 18)* | 10,430 | **11,621** | **115,986** |
| Investments in non-consolidated subsidiaries *(Note 3)* | 298 | **411** | **4,107** |
| Deferred tax assets *(Note 13)* | 811 | **887** | **8,860** |
| Intangible assets | 98 | **93** | **929** |
| Other assets *(Note 3)* | 8,589 | **8,388** | **83,720** |
| Allowance for doubtful accounts | (795) | **(862)** | **(8,606)** |
| | 19,431 | **20,538** | **204,996** |
| Total assets | ¥125,847 | **¥124,650** | **$1,244,145** |

| | March 31, | | |
|---|---|---|---|
| | 2007 | 2008 | 2008 |
| | (Millions of yen) | | (Thousands of U.S. dollars) |
| **Liabilities and net assets** | | | |
| Current liabilities: | | | |
| Short-term borrowings *(Note 18)* | ¥ 29,601 | **¥ 24,601** | **$ 245,544** |
| Current portion of long-term debt *(Note 18)* | 2,319 | **4,896** | **48,868** |
| Notes and accounts payable, trade | 8,879 | **8,133** | **81,169** |
| Accrued expenses | 3,028 | **3,118** | **31,114** |
| Accrued income taxes | 6,600 | **1,130** | **11,280** |
| Accrued directors' bonus | 38 | **39** | **389** |
| Other current liabilities | 6,647 | **4,277** | **42,699** |
| Total current liabilities | 57,112 | **46,194** | **461,063** |
| Long-term liabilities: | | | |
| Long-term debt *(Note 18)* | 8,515 | **11,618** | **115,964** |
| Accrued employees' pension and severance costs *(Note 12)* | 3,592 | **3,394** | **33,875** |
| Accrued directors' and statutory auditors' retirement allowances | 140 | **166** | **1,667** |
| Deferred tax liabilities related to land revaluation *(Note 4)* | 5,785 | **5,786** | **57,741** |
| Accrued environmental allowances | 157 | **158** | **1,569** |
| Other long-term liabilities | 2,617 | **78** | **783** |
| Total non-current liabilities | 20,806 | **21,200** | **211,599** |
| Total liabilities | 77,918 | **67,394** | **672,662** |
| Net assets | | | |
| Shareholders' equity: | | | |
| Common stock: | | | |
| Authorized – 264,000,000 shares | | | |
| Issued – 135,855,217 shares in 2007 | | | |
| 135,855,217 shares in 2008 | 14,630 | **14,630** | **146,029** |
| Capital surplus | 9,877 | **9,877** | **98,587** |
| Retained earnings | 15,249 | **23,839** | **237,944** |
| Less: Treasury stock, at cost – 50,794 shares in 2008 and 46,980 shares in 2007 | (18) | **(21)** | **(219)** |
| Total shareholders' equity | 39,738 | **48,325** | **482,341** |
| Revaluation and translation adjustments: | | | |
| Net unrealized gains on other securities | 3,120 | **1,039** | **10,377** |
| Losses on deferred hedges | (2,711) | **(69)** | **(691)** |
| Surplus from land revaluation *(Note 4)* | 7,580 | **7,580** | **75,653** |
| Foreign currency translation adjustments | 202 | **381** | **3,803** |
| Total revaluation and translation adjustments | 8,191 | **8,931** | **89,142** |
| Total net assets | 47,929 | **57,256** | **571,483** |
| Total liabilities and net assets | ¥125,847 | **¥124,650** | **$1,244,145** |

*The accompanying notes are an integral part of these financial statements.*

Toho Zinc Co., Ltd. and Consolidated Subsidiaries

## Consolidated Statements of Income

| | Year ended March 31, 2006 | 2007 | 2008 | 2008 |
|---|---|---|---|---|
| | | *(Millions of yen)* | | *(Thousands of U.S. dollars)* |
| Net sales | ¥75,916 | ¥127,876 | **¥147,390** | **$1,471,104** |
| Cost of sales | 63,085 | 102,216 | **123,827** | **1,235,931** |
| Gross profit | 12,831 | 25,660 | **23,563** | **235,173** |
| Selling, general and administrative expenses: | | | | |
| Transportation expense | 2,794 | 3,067 | **3,223** | **32,176** |
| Salaries and wages | 970 | 1,024 | **965** | **9,633** |
| Pension and severance costs | 109 | 93 | **82** | **820** |
| Research and development costs *(Note 6)* | 243 | 262 | **261** | **2,611** |
| Depreciation | 83 | 81 | **73** | **731** |
| Directors' and statutory auditors' retirement costs | 34 | 44 | **26** | **268** |
| Directors' bonus | – | 38 | **39** | **389** |
| Provision for doubtful accounts | 20 | 52 | **94** | **945** |
| Other | 1,381 | 1,535 | **1,517** | **15,098** |
| | 5,634 | 6,196 | **6,280** | **62,671** |
| Operating income | 7,197 | 19,464 | **17,283** | **172,502** |
| Other income (expense): | | | | |
| Interest and dividend income | 111 | 231 | **440** | **4,398** |
| Gain on sale of securities | 141 | 0 | **–** | **–** |
| Derivative gains (losses) | 207 | 82 | **(14)** | **(145)** |
| Interest expenses | (370) | (467) | **(657)** | **(6,565)** |
| Exchange gains (losses), net | (395) | 233 | **(118)** | **(1,182)** |
| Loss on disposal of property, plant and equipment | (352) | (797) | **(265)** | **(2,650)** |
| Equity in earnings (losses) of unconsolidated subsidiaries and affiliated companies | (181) | 425 | **577** | **5,759** |
| Impairment loss on fixed assets *(Note 7)* | (232) | (8) | **(4)** | **(39)** |
| Losses on hedge transactions | – | (1,977) | **(496)** | **(4,943)** |
| Provision for environmental measures | – | (157) | **–** | **–** |
| Write-down of investment securities | (5) | (17) | **(367)** | **(3,662)** |
| Other | 155 | (55) | **164** | **1,645** |
| | (921) | (2,507) | **(740)** | **(7,384)** |
| Income before income taxes | 6,276 | 16,957 | **16,543** | **165,118** |
| Income taxes: | | | | |
| Current | 2,856 | 7,946 | **5,139** | **51,292** |
| Deferred | (2) | (1,076) | **1,455** | **14,524** |
| | 2,854 | 6,870 | **6,594** | **65,816** |
| Net income | ¥ 3,422 | ¥ 10,087 | **¥ 9,949** | **$ 99,302** |
| | | *(Yen)* | | *(U.S. dollars)* |
| Per share: | | | | |
| Net income – basic | ¥26.98 | ¥75.26 | **¥73.26** | **$0.73** |
| Cash dividends | ¥ 5.00 | ¥10.00 | **¥10.00** | **$0.09** |

*The accompanying notes are an integral part of these financial statements.*

Toho Zinc Co., Ltd. and Consolidated Subsidiaries

Consolidated Statements of Changes in Net Assets

| | | Shareholders' equity | | | | | Revaluation and translation adjustments | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Number of shares of common stock issued | Common stock | Capital surplus | Retained earnings | Treasury stock (*) | Total shareholders' equity | Net unrealized gains on other securities | Losses on deferred hedges | Surplus from land revaluation | Foreign currency translation adjustments | Total revaluation and translation adjustments | Total net assets |
| | | | | | | | *(Millions of yen)* | | | | | |
| Balance at March 31, 2005 | 125,855,217 | ¥10,240 | ¥5,490 | ¥ 3,332 | ¥ (6) | ¥19,056 | ¥ 982 | ¥ – | ¥7,931 | ¥ 43 | ¥ 8,956 | ¥28,012 |
| Dividends from surplus | – | – | – | (651) | – | (651) | – | – | – | – | – | (651) |
| Net income | – | – | – | 3,422 | – | 3,422 | – | – | – | – | – | 3,422 |
| Acquisition of treasury stock | – | – | – | – | (3) | (3) | – | – | – | – | – | (3) |
| Net charges in items other than those in shareholders' equity | – | – | – | – | – | – | 1,438 | – | (346) | 53 | 1,145 | 1,145 |
| Balance at March 31, 2006 | 125,855,217 | 10,240 | 5,490 | 6,103 | (9) | 21,824 | 2,420 | – | 7,585 | 96 | 10,101 | 31,925 |
| Issuance of new shares | 10,000,000 | 4,390 | 4,387 | – | – | 8,777 | – | – | – | – | – | 8,777 |
| Cash dividends paid | – | – | – | (629) | – | (629) | – | – | – | – | – | (629) |
| Bonuses to directors | – | – | – | (28) | – | (28) | – | – | – | – | – | (28) |
| Decrease due to change in scope of consolidation | – | – | – | (289) | – | (289) | – | – | – | – | – | (289) |
| Net income | – | – | – | 10,087 | – | 10,087 | – | – | – | – | – | 10,087 |
| Acquisition of treasury stock | – | – | – | – | (9) | (9) | – | – | – | – | – | (9) |
| Other | – | – | 0 | 5 | (0) | 5 | – | – | – | – | – | 5 |
| Net charges in items other than those in shareholders' equity | – | – | – | – | – | – | 700 | (2,711) | (5) | 106 | (1,910) | (1,910) |
| Balance at March 31, 2007 | 135,855,217 | 14,630 | 9,877 | 15,249 | (18) | 39,738 | 3,120 | (2,711) | 7,580 | 202 | 8,191 | 47,929 |
| Issuance of new shares | – | – | – | – | – | – | – | – | – | – | – | – |
| Dividends from surplus | **–** | **–** | **–** | **(1,359)** | **–** | **(1,359)** | **–** | **–** | **–** | **–** | **–** | **(1,359)** |
| Net income | **–** | **–** | **–** | **9,949** | **–** | **9,949** | **–** | **–** | **–** | **–** | **–** | **9,949** |
| Acquisition of treasury stock | **–** | **–** | **–** | **–** | **(4)** | **(4)** | **–** | **–** | **–** | **–** | **–** | **(4)** |
| Other | **–** | **–** | **0** | **–** | **1** | **1** | **–** | **–** | **–** | **–** | **–** | **1** |
| Net charges in items other than those in shareholders' equity | **–** | **–** | **–** | **–** | **–** | **–** | **(2,081)** | **(2,642)** | **–** | **179** | **740** | **740** |
| Balance at March 31, 2008 | **135,855,217** | **¥14,630** | **¥9,877** | **¥23,839** | **¥(21)** | **¥48,325** | **¥ 1,039** | **¥ (69)** | **¥7,580** | **¥381** | **¥ 8,931** | **¥57,256** |

Toho Zinc Co., Ltd. and Consolidated Subsidiaries

Consolidated Statements of Changes in Net Assets (continued)

| | Shareholders' equity | | | | | Revaluation and translation adjustments | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | Common stock | Capital surplus | Total net assets | Treasury stock (*) | Total shareholders' equity | Net unrealized gains on other securities | Losses on deferred hedges | Surplus from land revaluation | Foreign currency translation adjustments | Total revaluation and translation adjustments | Total net assets |
| | (Thousands of U.S. dollars) | | | | | | | | | | |
| Balance at March 31, 2007 | $146,029 | $98,586 | $478,380 | $(181) | $396,630 | $ 31,136 | $(27,054) | $75,653 | $2,015 | $81,750 | $478,380 |
| Issuance of new shares | – | – | – | – | – | – | – | – | – | – | – |
| Dividends from surplus | – | – | **(13,555)** | – | **(13,555)** | – | – | – | – | – | **(13,555)** |
| Bonuses to Directors | – | – | – | – | – | – | – | – | – | – | – |
| Net income | – | – | **99,303** | – | **99,303** | – | – | – | – | – | **99,303** |
| Acquisition of treasury stock | – | – | **(41)** | **(41)** | **(41)** | – | – | – | – | – | **(41)** |
| Other | – | **1** | **4** | **3** | **4** | – | – | – | – | – | **4** |
| Net charges in items other than those in shareholders' equity | – | – | **7,392** | – | – | **(20,758)** | **26,363** | – | **1,788** | **7,392** | **7,392** |
| Balance at March 31, 2008 | **$146,029** | **$98,587** | **$571,483** | **$(219)** | **$482,341** | **$ 10,377** | **$ (691)** | **$75,653** | **$3,803** | **$89,142** | **$571,483** |

(*) There were 46,980 shares and 50,794 shares of treasury stock as of March 31, 2007 and 2008, respectively.

*The accompanying notes are an integral part of these financial statements.*

Toho Zinc Co., Ltd. and Consolidated Subsidiaries

## Consolidated Statements of Cash Flows

| | Year ended March 31, | | | |
|---|---|---|---|---|
| | 2006 | 2007 | 2008 | 2008 |
| | *(Millions of yen)* | | | *(Thousands of U.S. dollars)* |
| Cash flows from operating activities: | | | | |
| Income before income taxes | ¥ 6,276 | ¥16,957 | **¥ 16,543** | **$ 165,118** |
| Adjustments to reconcile net income to net cash provided by operating activities: | | | | |
| Depreciation and amortization | 2,293 | 2,285 | **2,660** | **26,559** |
| Impairment loss on fixed assets | 232 | 8 | **4** | **47** |
| Write-down of investments securities | – | 17 | **367** | **3,662** |
| Increase (decrease) in allowance for doubtful accounts | (58) | 99 | **12** | **122** |
| Increase in accrued directors' bonus | – | 38 | **1** | **9** |
| Increase (decrease) in accrued employees' pension and severance costs | (63) | (154) | **(197)** | **(1,974)** |
| Interest and dividend income | (111) | (231) | **(440)** | **(4,398)** |
| Interest expenses | 370 | 467 | **657** | **6,564** |
| Equity in (earnings) losses of unconsolidated subsidiaries and affiliated companies | 181 | (425) | **(577)** | **(5,759)** |
| Net loss on sale and disposal of property, plant and equipment | 352 | 797 | **266** | **2,651** |
| Gain on sale of securities | (141) | (0) | **–** | **–** |
| (Increase) decrease in notes and accounts receivable, trade | (5,553) | (8,330) | **11,176** | **111,553** |
| (Increase) decrease in inventories | (5,580) | (1,882) | **(6,010)** | **(59,991)** |
| Increase (decrease) in notes and accounts payable, trade | 1,668 | (33) | **(3,853)** | **(38,459)** |
| Other | (680) | 110 | **302** | **3,010** |
| Sub total | (814) | 9,723 | **20,911** | **208,714** |
| Interest and dividend income received | 218 | 221 | **437** | **4,366** |
| Interest expense paid | (348) | (473) | **(654)** | **(6,528)** |
| Income taxes paid | (2,019) | (3,475) | **(10,534)** | **(105,144)** |
| Net cash provided by (used in) operating activities | (2,963) | 5,996 | **10,160** | **101,408** |
| Cash flows from investing activities: | | | | |
| Payments for purchases of property, plant and equipment | (2,885) | (1,978) | **(2,795)** | **(27,899)** |
| Proceeds from sale of property, plant and equipment | 6 | 21 | **15** | **154** |
| Payments for purchases of investment securities | (242) | (1,567) | **(5,168)** | **(51,589)** |
| Proceeds from sale of investments securities | 239 | 4 | **–** | **–** |
| Payments for purchases of investments in affiliates | (593) | (2,495) | **(294)** | **(2,936)** |
| Additions to loans receivable | – | (1,361) | **–** | **–** |
| Other | (249) | (742) | **(128)** | **(1,279)** |
| Net cash used in investing activities | (3,724) | (8,118) | **(8,370)** | **(83,549)** |
| Cash flows from financing activities: | | | | |
| Decrease in short-term borrowings | 3,338 | – | **–** | **–** |
| Increase (decrease) in commercial paper, net | 3,000 | 3,000 | **(5,000)** | **(49,905)** |
| Proceeds from long-term debt | 4,650 | – | **8,000** | **79,848** |
| Repayments of long-term debt | (1,933) | (2,286) | **(2,318)** | **(23,143)** |
| Proceeds from issuance of stock | – | 8,776 | **–** | **–** |
| Cash dividends paid | (629) | (629) | **(1,359)** | **(13,555)** |
| Other | (3) | (9) | **(4)** | **(37)** |
| Net cash provided by (used in) financing activities | 8,423 | 8,852 | **(681)** | **(6,792)** |
| Effect of exchange rate changes on cash and cash equivalents | – | (4) | **(8)** | **(79)** |
| Net increase in cash and cash equivalents | 1,736 | 6,726 | **1,101** | **10,988** |
| Cash and cash equivalents at beginning of year | 4,770 | 6,506 | **13,232** | **132,070** |
| Cash and cash equivalents at end of year *(Note 8)* | ¥ 6,506 | ¥13,232 | **¥ 14,333** | **$ 143,058** |

*The accompanying notes are an integral part of these financial statements.*

Toho Zinc Co., Ltd. and Consolidated Subsidiaries

Notes to Consolidated Financial Statements

March 31, 2008

## 1. Summary of Significant Accounting Policies

(a) Basis of presentation

The accompanying consolidated financial statements of Toho Zinc Co., Ltd. (the “Company”) and its consolidated subsidiaries (the “Companies”) are prepared on the basis of accounting principles generally accepted in Japan, which are different in certain respects as to application and disclosure requirements of International Financial Reporting Standards, and are compiled from the consolidated financial statements prepared by the Company as required by the Financial Instruments and Exchange Law of Japan.

Certain items presented in the consolidated financial statements submitted to the Direction of Kanto Financial Bureau in Japan have been reclassified in the accompanying consolidated financial statements for the convenience of readers outside Japan.

(b) Principles of consolidation

The accompanying consolidated financial statements include the accounts of the Company and any significant subsidiaries that are controlled by the Company. Under the effective control approach, all majority-owned companies are to be consolidated. Additionally, companies in which share ownership equals 50% or less may be required to be consolidated in cases where such companies are effectively controlled by other companies through the interests held by a party who has a close relationship with the parent in accordance with Japanese accounting standards. All significant inter-company transactions and accounts are eliminated in consolidation.

(c) Financial instruments

(1) Derivatives

All derivatives are recognized in the balance sheet at fair value, with changes in fair value included in net income for the period in which they arise, except for derivatives that are designated as “hedging instruments” (see Note 1-(c)-(3) Hedge accounting below).

(2) Investment securities

Marketable securities classified as other securities are carried at fair value with any changes in unrealized gains or losses, net of income taxes, included directly in net assets.

Non-marketable securities classified as other securities are carried at cost. Cost of securities sold is determined by the moving average method.

## 1. Summary of Significant Accounting Policies (continued)

(c) Financial instruments (continued)

(3) Hedge accounting

Gains or losses arising from changes in fair value of the derivatives designated as "hedging instruments" are deferred as an asset or liability and included in net income in the same period during which the gains and losses on the hedged items or transactions are recognized.

The derivatives designated as hedging instruments held by the Companies are commodities futures. The related hedged items are commodities.

The Companies has a policy to utilize the above hedging instruments in order to reduce the Companies' exposure to the risk of the price fluctuation.

The Company evaluates effectiveness of its hedging activities by reference to the accumulated gains or losses on the hedging instruments and the related hedged items from the commencement of the hedging transactions.

(d) Inventories

Inventories are stated at cost, which is primarily determined by the last-in first-out method.

(e) Property, plant and equipment and depreciation

Property, plant and equipment are stated at cost and have been mainly depreciated by the straight-line method over the estimated useful lives of respective assets.

(Changes accounting policy)

In accordance with the revision made to the Corporate Tax Law of Japan (the "Tax Law") which went into effect on April 1, 2007, effective the year ended March 31, 2008, the Company and domestic consolidated subsidiaries have adopted the new method prescribed in the revised Tax Law for depreciating tangible fixed assets acquired on or after April 1,2007. Effect of this accounting change on operating income, and income before income taxes were insignificant.

(Additional information)

In addition to the above adoption, effective the year ended March 31, 2008, these companies depreciate the difference between 5% of acquisition cost and nominal value by the straight-line method over a period of five years from the year following the year in which the accumulated depreciation has reached 95% of acquisition cost with respect to the tangible fixed assets acquired on or before March 31, 2007. As a result, operating income, and income before income taxes both decreased by ¥411 million ($4,411 thousand) for the year ended March 31, 2008 from the corresponding amounts which would have been reported under the previous method.

The effect of this change on segment information is explained in Note 15.

## 1. Summary of Significant Accounting Policies (continued)

(f) Intangible assets and amortization

Software for internal use is amortized by using the straight-line method over estimated useful lives (less than 5 years).

(g) Allowance for doubtful accounts

The allowance for doubtful accounts is provided at an amount sufficient to cover possible losses on collection. The allowance consists of the estimated uncollectible amounts with respect to specific receivables plus a percentage based on historical credit losses.

(h) Accrued directors' and statutory auditor's retirement allowances

In order to prepare for the disbursements of the directors' and statutory auditor's retirement allowances, the Company records an amount required to be paid out as at the end of the fiscal year which is calculated based on internal rules.

Note that the Company discontinued the system for directors' and statutory auditor's retirement allowances in accordance with a decision by the board of directors held on May 22, 2007, and hence the balance as at the end of this consolidated fiscal year is the amount for periods in which the directors and statutory auditors served prior to June 2007.

(i) Accrued directors' bonuses

Accrued directors' bonuses at the balance sheet date are based on an estimate of the amount to be paid as bonuses for services rendered by that date.

(Changes accounting policy)

Effective from the year ended March 31, 2007, the Company applied "Accounting standard for directors' bonus" (Accounting Standard Board of Japan Statement No. 4 issued on November 29, 2005 by the Accounting Standards Board of Japan). As a result of the application of this standard, operating profit, ordinary income and income before income taxes decreased by ¥38 million, respectively, for the year ended March 31, 2007.

(j) Accrued environmental allowances

Accrued environmental allowances are estimated and recorded to provide for future potential costs, such as costs related to disposal of polychlorinated biphenyl (PCB).

(k) Accrued expected losses on construction contracts in process allowances

In order to prepare for future losses related to construction orders, the Company has recorded an estimated amount for construction which has yet to be transferred as at the end of the consolidation fiscal year.

## 1. Summary of Significant Accounting Policies (continued)

(l) Leases

Noncancelable lease transactions are accounted for as operating leases (whether such leases are classified as operating or finance leases) except that lease agreements which stipulate the transfer or ownership of the leased property to the lessee are accounted for as finance leases.

(m) Accrued employees’ pension and severance costs

Accrued employees’ retirement benefits are provided mainly at an amount calculated based on the retirement benefit obligation and the fair value of the pension plan assets as of the balance sheet date, as adjusted for unrecognized actuarial gain or loss and unrecognized prior service cost. The retirement benefit obligation is attributed to each period by the straight-line method over the estimated years of service of the employees.

Actuarial gain and loss are amortized in the year following the year in which the gain or loss is recognized primarily by the straight-line method over the period of 10 years which are the average remaining year of service of the employees.

Prior service cost is being amortized as incurred by the straight-line method over the period of 10 years which are the average remaining years of service of the employees.

(n) Cash and cash equivalents

Cash and cash equivalents in the consolidated statements of cash flows are composed of cash on hands, bank deposits be able to withdraw on demand and short-term investments with original maturity of three months or less and minor risk for the fair value fluctuation.

(o) Income taxes

Deferred tax assets and liabilities are determined based on the differences between financial reporting and the tax bases of the assets and liabilities and are measured using the enacted tax rates and laws which will be in effect when the differences are expected to reverse.

(p) Foreign currency translation

*Foreign currency transaction*

All receivables and payables denominated in foreign currencies are translated into Japanese yen at the exchange rate prevailing at the balance sheet date.

*Foreign currency financial statements*

The assets and liabilities of the foreign consolidated subsidiaries are translated into Japanese yen at current exchange rate prevailing at the balance sheet date. Revenue and expense accounts are translated at current exchange rate prevailing at the balance sheet date. Foreign currency translation adjustments are included in net assets.

## 1. Summary of Significant Accounting Policies (continued)

(q) Appropriation of retained earnings

Cash dividends and transfers to legal reserve are recorded in the fiscal year that the proposed appropriation of retained earnings is approved at the shareholders' meeting.

(r) Net income per share

Net income per share is computed based on the net income available for distribution to shareholders of common stock and the weighted average number of shares of common stock outstanding during the year.

## 2. U.S. Dollar Amounts

U.S. dollar amounts presented in the accompanying consolidated financial statements and in these notes are included solely for the convenience of readers onside of Japan, at the prevailing exchange rate of ¥100.19 to U.S.$1 on March 31, 2008. These translations should not be construed as representations that the yen amounts actually represent, or have been or could be converted into U.S. dollars at that or any other rate.

## 3. Investments in Non-Consolidated Subsidiaries and Affiliates

Investments in non-consolidated subsidiaries and affiliates as of March 31, 2007 and 2008 were summarized as follows:

| | March 31, | | |
|---|---|---|---|
| | **2007** | **2008** | **2008** |
| | *(Millions of yen)* | | *(Thousands of U.S. dollars)* |
| Subsidiaries | ¥ 298 | **¥ 411** | **$ 4,107** |
| Affiliates | 4,027 | **5,260** | **52,499** |
| | ¥4,325 | **¥5,671** | **$56,606** |

## 4. Land Revaluation

In accordance with the Land Revaluation Law, the Company's land used for its business operations was revalued as follows:

Date of revaluation: March 31, 2000

The difference between total fair value of land at March 31, 2008 and the total book value after revaluation of land: ¥5,069 million ($50,595 thousand)

The tax effect of the excess on revaluation is recorded as "Deferred tax liabilities related to land revaluation" which is included in liabilities, and the remainder, net of income taxes portion of the excess on revaluation is presented as "Surplus from land revaluation" which is included in net assets.

## 5. Commitments and Contingent Liabilities

The Companies were contingently liable as guarantors for loans of other companies in the aggregate amount of ¥860 million ($8,590 thousand) at March 31, 2008.

The Company has entered into loan commitment agreements amounting to ¥5,600 million ($55,893 thousand) with financial institutes at March 31, 2008. The loans payable outstanding was zero, and therefore, the unused balances was ¥5,600 million ($55,893 thousand) under the credit facilities as of March 31, 2008.

## 6. Research and Development Costs

Research and development costs, which are included in cost of sales and selling, general and administrative expenses, totaled ¥243 million, ¥262 million and ¥261 million ($2,611 thousand) for the years ended March 31, 2006, 2007 and 2008, respectively.

## 7. Impairment Loss on Fixed Assets

The Company has recognized impairment losses on the assets group for the year ended March 31, 2006, 2007 and 2008 as follows:

| **March 31,** | Location | Use | Category | *Impairment loss millions of yen (Thousands of U.S. dollars)* |
|---|---|---|---|---|
| **2006** | Annaka City, Gumma, other | Idle assets | Machinery, | ¥185 |
| | | | Buildings and structures, | 46 |
| | | | Others | 1 |
| **2007** | Annaka City, Gumma, other | Idle assets | Machinery, | ¥7 |
| | | | Buildings and structures, | 1 |
| | | | Others | 0 |
| **2008** | **Shandong, China** | **Idle assets** | **Machinery,** | **¥4** **($47)** |
| | | | **Others** | **0** **(0)** |

The Company determined asset group based on the categories used for their managerial accounting. With respect to idle assets, each asset is treated as an individual unit to apply the accounting for the impairment.

The Company recognized impairment losses for entire book value of idle assets on the ground that they were projected to generate no future cash-in flows and were not readily salable either.

## 8. Cash and Cash Equivalents

Cash and cash equivalents at March 31, 2007 and 2008 were composed of the followings:

| | March 31, | | |
|---|---|---|---|
| | 2007 | 2008 | 2008 |
| | *(Millions of yen)* | | *(Thousands of U.S. dollars)* |
| Cash and time deposits | ¥13,267 | **¥14,358** | **$143,307** |
| Less: | | | |
| Time deposits with a maturity of more than three months when purchased | (35) | **(25)** | **(249)** |
| Cash and cash equivalents | ¥13,232 | **¥14,333** | **$143,058** |

## 9. Leases

As lessees:

The following pro forma amounts represent the acquisition cost, accumulated depreciation and net book value of the leased assets at March 31, 2007 and 2008 which would have been reflected in the consolidated balance sheets if these agreements had been accounted for as financing leases:

| | March 31, | | |
|---|---|---|---|
| | 2007 | 2008 | 2008 |
| | *(Millions of yen)* | | *(Thousands of U.S. dollars)* |
| Acquisition cost of machinery and equipment | ¥ 94 | **¥ 137** | **$ 1,374** |
| Accumulated depreciation of machinery and equipment | (26) | **(39)** | **(392)** |
| Net book value | ¥ 68 | **¥ 98** | **$ 982** |
| Acquisition cost of furniture and fixtures | ¥154 | **¥ 151** | **$ 1,513** |
| Accumulated depreciation of furniture and fixtures | (94) | **(109)** | **(1,095)** |
| Net book value | ¥ 60 | **¥ 42** | **$ 418** |

Future minimum lease payments (including the interest portion thereon) subsequent to March 31,2008 for finance leases accounted for as operating leases are summarized as follows:

| Year ending March 31, | *(Millions of yen)* | *(Thousands of U.S. dollars)* |
|---|---|---|
| 2008 | **¥ 37** | **$ 371** |
| 2009 and thereafter | **103** | **1,029** |
| Net book value | **¥140** | **$1,400** |

## 9. Leases (continued)

Lease payments relating to finance leases accounted for as operating leases in the accompanying consolidated financial statements for the years ended March 31, 2006, 2007 and 2008 totaled ¥39 million, ¥36 million and ¥42 million ($420 thousand), respectively. The pro forma depreciation of the assets leased under finance leases accounted for as operating leases for the years ended March 31,2006, 2007 and 2008 amounted to ¥39 million, ¥36 million and ¥42 million ($420 thousand), respectively.

## 10. Investment Securities

The Company classified investment securities other than those of subsidiaries and affiliates into two categories: held-to-maturity securities or other securities.

The aggregate cost and fair value (carrying value) of marketable securities which were included in investment securities at March 31, 2007 and 2008 were as follows:

| | March 31, 2007 | | |
|---|---|---|---|
| | Cost | Fair value (carrying value) | Unrealized gains (losses) |
| | | *(Millions of yen)* | |
| Securities for which fair value exceeds cost: | | | |
| Equity securities | ¥1,861 | ¥6,365 | ¥4,505 |
| Debt securities | 469 | 1,006 | 536 |
| Securities for which cost exceeds fair value: | | | |
| Equity securities | 879 | 799 | (80) |
| Debt securities | – | – | – |
| Total | ¥3,209 | ¥8,170 | ¥4,961 |

| | March 31, 2008 | | |
|---|---|---|---|
| | Cost | Fair value (carrying value) | Unrealized gains (losses) |
| | | *(Millions of yen)* | |
| Securities for which fair value exceeds cost: | | | |
| Equity securities | **¥1,785** | **¥4,192** | **¥2,407** |
| Debt securities | – | – | – |
| Securities for which cost exceeds fair value: | | | |
| Equity securities | **794** | **676** | **(118)** |
| Debt securities | **4,963** | **4,461** | **(502)** |
| Total | **¥7,542** | **¥9,329** | **¥1,787** |

## 10. Investment Securities (continued)

| | March 31, 2008 | | |
|---|---|---|---|
| | Cost | Fair value (carrying value) | Unrealized gains (losses) |
| | *(Thousands of U.S. dollars)* | | |
| Securities for which fair value exceeds cost: | | | |
| Equity securities | **$17,811** | **$41,845** | **$24,034** |
| Debt securities | – | – | – |
| Securities for which cost exceeds fair value: | | | |
| Equity securities | **7,931** | **6,747** | **(1,184)** |
| Debt securities | **49,536** | **44,525** | **(5,011)** |
| Total | **$75,278** | **$93,117** | **$17,839** |

As at March 31, 2007 and 2008, the carrying amount of non-marketable equity securities and debt securities, which were included in investment securities, were ¥929 million and 1,361 million, and ¥929 million ($9,275 thousand) and ¥1,361 million ($13,588 thousand), respectively.

## 11. Derivative Financial Instruments

The Company enters into forward exchange contracts, commodity futures and interest rate swaps. Forward exchange contracts and commodity futures are utilized to hedge currency risk exposures. Interest rate swaps are utilized to hedge against possible future changes in interest rates on borrowings. The Company uses derivative instruments only for hedging purposes and not for purposes of trading or speculation.

The table below lists contract amounts and fair value of derivatives as at March 31, 2007 by transactions and type of instrument, excluding derivatives eligible for hedge accounting.

(a) Currency-related derivatives

| | March 31, 2007 | | |
|---|---|---|---|
| Instruments | Contract amounts | Fair value | Unrealized gains (losses) |
| | *(Millions of yen)* | | |
| Forward exchange contracts: | | | |
| Sold – | | | |
| U.S. dollar (purchased Japanese yen) | ¥4,568 | ¥4,499 | ¥69 |
| Purchased – | | | |
| U.S. dollar (sold Japanese yen) | 82 | 82 | 0 |
| Total unrealized losses from forward exchange contracts | | | ¥69 |

## 11. Derivative Financial Instruments (continued)

(b) Interest rate-related derivatives

| Instruments | March 31, 2007<br>Contract amounts | <br>Fair value | <br>Unrealized gains (losses) |
|---|---|---|---|
| | | *(Millions of yen)* | |
| Interest rate swap contracts: | | | |
| To receive floating / to pay fixed rate | ¥5,000 | ¥(54) | ¥(54) |

## 12. Employees' Pension and Severance Costs

The Company and its domestic consolidated subsidiaries have defined benefit plans, i.e., tax-qualified pension plans and lump-sum payment plans, covering substantially all employees who are entitled to lump-sum or annuity payments, the amounts of which are determined by reference to their basic rates of pay, length of service, and the conditions under which termination occurs.

The funded status of retirement benefit obligations at March 31, 2007 and 2008 were as follows:

| | March 31,<br>2007 | <br>2008 | <br>2008 |
|---|---|---|---|
| | *(Millions of yen)* | | *(Thousands of U.S. dollars)* |
| Projected benefit obligations | ¥ 5,548 | **¥ 4,729** | **$ 47,200** |
| Plan assets at fair value | (1,729) | **(1,510)** | **(15,075)** |
| Unfunded status | 3,819 | **3,219** | **32,125** |
| Unrecognized actuarial loss | (227) | **(214)** | **(2,140)** |
| Unrecognized prior service benefit | – | **389** | **3,890** |
| Accrued employees' pension and severance costs | ¥ 3,592 | **¥ 3,394** | **$ 33,875** |

The compositions of employees' pension and severance expense for the years ended March 31, 2006, 2007 and 2008 were as follows:

| | Year ended March 31,<br>2006 | <br>2007 | <br>2008 | <br>2008 |
|---|---|---|---|---|
| | *(Millions of yen)* | | | *(Thousands of U.S. dollars)* |
| Service cost | ¥289 | ¥271 | **¥251** | **$2,510** |
| Interest cost | 111 | 108 | **103** | **1,036** |
| Expected return on plan assets | (25) | (31) | **(34)** | **(345)** |
| Amortization of actuarial loss | 108 | 78 | **73** | **725** |
| Total | ¥483 | ¥426 | **¥393** | **$3,926** |

## 12. Employees' Pension and Severance Costs (continued)

The assumptions used for in accounting for the defined benefit pension plans for the years ended March 31, 2006, 2007 and 2008 were as follows:

| | Year ended March 31, | | |
|---|---|---|---|
| | 2006 | 2007 | 2008 |
| Discount rate | 2.0% | 2.0% | **2.0%** |
| Expected rate of return on plan assets | 2.5% | 2.0% | **2.0%** |

## 13. Income Taxes

At March 31, 2007 and 2008, significant components of deferred tax assets and liabilities were as follows:

| | March 31, | | |
|---|---|---|---|
| | 2007 | 2008 | 2008 |
| | *(Millions of yen)* | | *(Thousands of U.S. dollars)* |
| Deferred tax assets: | | | |
| Accrued employees' pension and severance costs | ¥ 1,448 | **¥1,370** | **$13,677** |
| Accrued employees' bonus | 325 | **319** | **3,192** |
| Inventories write-off | 184 | **–** | **–** |
| Elimination of intercompany profits | 76 | **116** | **1,165** |
| Accrued enterprise tax | 503 | **111** | **1,112** |
| Loss on hedge transactions | 805 | **–** | **–** |
| Losses on deferred hedges | 1,860 | **47** | **475** |
| Other | 393 | **220** | **2,197** |
| Gross deferred tax assets | 5,594 | **2,183** | **21,818** |
| Less: Valuation allowance | 205 | **67** | **678** |
| Total deferred tax assets | 5,389 | **2,116** | **21,140** |
| Deferred tax liabilities: | | | |
| Special tax-purpose reserve for condensed booking of tangible assets | (33) | **(30)** | **(298)** |
| Unrealized gains on other securities | (1,877) | **(660)** | **(6,595)** |
| Total deferred tax liabilities | (1,910) | **(690)** | **(6,893)** |
| Net deferred tax assets | ¥ 3,479 | **¥1,426** | **$14,247** |
| Deferred tax liabilities: | | | |
| Deferred tax liabilities related to land revaluation | ¥ 5,785 | **¥5,785** | **$57,740** |

The reconciliation between the statutory tax rate and the effective tax rate for the year ended March 31, 2006, 2007, 2008 is not shown because the difference was less than 5% of the statutory tax rate.

## 14. Net Assets

The Corporation Law of Japan (the "Law"), which superseded most of the provisions of the Commercial Code of Japan, went into effect on May 1, 2006. The Law provides that an amount equal to 10% of the amount to be disbursed as distributions of capital surplus (other than the capital reserve) and retained earnings (other than the legal reserve) be transferred to the capital reserve and the legal reserve, respectively, until the sum of the capital reserve and the legal reserve equals 25% of the common stock. Such distributions can be made at any time by resolution of the stockholders, or by the Board of Directors if certain conditions are met.

## 15. Segment Information

*Business segment information*

Effective from the year ended March 31, 2005, industry segments are divided into four groups: Smelting industry, Electronic Material industry, Environment and Recycling industry and other, from prior three groups: Smelting industry, Metal processing industry, and other.

Information about business segment of the Companies for the years ended March 31, 2006, 2007 and 2008 is as follows:

| | **Year ended March 31, 2006** | | | | | |
|---|---|---|---|---|---|---|
| | Business segment | | | | | |
| | Industry A (Note 1) | Industry B (Note 1) | Industry C (Note 1) | Other (Note 1) | Eliminations and corporate (Note 2) | Consolidated |
| | *(Millions of yen)* | | | | | |
| Net sales: | | | | | | |
| Customers | ¥50,967 | ¥ 8,862 | ¥5,332 | ¥10,755 | ¥ – | ¥75,916 |
| Inter-segment | 474 | 11 | 68 | 3,454 | (4,007) | – |
| Total | 51,441 | 8,873 | 5,400 | 14,209 | (4,007) | 75,916 |
| Cost and expenses | 47,256 | 8,101 | 4,348 | 12,803 | (3,789) | 68,719 |
| Operating income (loss) | 4,185 | 772 | 1,052 | 1,406 | (218) | 7,197 |
| Total assets | 52,371 | 11,905 | 6,715 | 7,145 | 20,153 | 98,289 |
| Depreciation and amortization | 1,503 | 336 | 342 | 15 | 97 | 2,293 |
| Impairment loss of fixed assets | 70 | 160 | 2 | – | – | 232 |
| Capital expenditures | ¥ 2,187 | ¥ 443 | ¥ 214 | ¥ 84 | ¥ 90 | ¥ 3,018 |

## 15. Segment Information (continued)

*Business segment information (continued)*

| | Year ended March 31, 2007 | | | | | |
|---|---|---|---|---|---|---|
| | Business segment | | | | Eliminations and corporate (Note 2, 3) | Consolidated |
| | Industry A (Note 1) | Industry B (Note 1) | Industry C (Note 1) | Other (Note 1) | | |
| | (Millions of yen) | | | | | |
| Net sales: | | | | | | |
| Customers | ¥97,623 | ¥10,844 | ¥9,481 | ¥ 9,928 | ¥ – | ¥127,876 |
| Inter-segment | 506 | 13 | 124 | 3,621 | (4,264) | – |
| Total | 98,129 | 10,857 | 9,605 | 13,549 | (4,264) | 127,876 |
| Cost and expenses | 81,980 | 10,271 | 7,871 | 12,151 | (3,861) | 108,412 |
| Operating income (loss) | 16,149 | 586 | 1,734 | 1,398 | (403) | 19,464 |
| Total assets | 65,017 | 11,942 | 9,473 | 5,483 | 33,931 | 125,847 |
| Depreciation and amortization | 1,402 | 320 | 311 | 156 | 96 | 2,285 |
| Impairment loss of fixed assets | 8 | – | – | – | – | 8 |
| Capital expenditures | ¥ 1,569 | ¥ 259 | ¥ 172 | ¥ 2,071 | ¥ 50 | ¥ 2,121 |

| | **Year ended March 31, 2008** | | | | | |
|---|---|---|---|---|---|---|
| | Business segment | | | | Eliminations and corporate (Note 2) | Consolidated |
| | Industry A (Note 1) | Industry B (Note 1) | Industry C (Note 1) | Other (Note 1) | | |
| | (Millions of yen) | | | | | |
| Net sales: | | | | | | |
| Customers | **¥113,729** | **¥10,901** | **¥12,287** | **¥10,473** | **¥ –** | **¥147,390** |
| Inter-segment | **730** | **11** | **162** | **4,949** | **(5,852)** | **–** |
| Total | **114,459** | **10,912** | **12,449** | **15,422** | **(5,852)** | **147,390** |
| Cost and expenses | **102,001** | **9,786** | **10,137** | **13,606** | **(5,423)** | **130,107** |
| Operating income (loss) | **12,458** | **1,126** | **2,312** | **1,816** | **(429)** | **17,283** |
| Total assets | **66,343** | **11,658** | **7,608** | **5,394** | **33,646** | **124,650** |
| Depreciation and amortization | **1,853** | **354** | **356** | **10** | **86** | **2,660** |
| Impairment loss of fixed assets | **–** | **4** | **–** | **–** | **–** | **4** |
| Capital expenditures | **¥ 2,136** | **¥ 373** | **¥ 315** | **¥ 231** | **¥ 90** | **¥ 3,146** |

| | **Year ended March 31, 2008** | | | | | |
|---|---|---|---|---|---|---|
| | Business segment | | | | Eliminations and corporate (Note 2, 3) | Consolidated |
| | Industry A (Note 1) | Industry B (Note 1) | Industry C (Note 1) | Other (Note 1) | | |
| | (Thousands of U.S. dollars) | | | | | |
| Net sales: | | | | | | |
| Customers | **$1,135,140** | **$108,809** | **$122,630** | **$104,526** | **$ –** | **$1,471,105** |
| Inter-segment | **7,283** | **112** | **1,620** | **49,400** | **(58,415)** | **–** |
| Total | **1,142,423** | **108,921** | **124,250** | **153,926** | **(58,415)** | **1,471,105** |
| Cost and expenses | **1,018,081** | **97,674** | **101,174** | **135,807** | **(54,134)** | **1,298,602** |
| Operating income (loss) | **124,342** | **11,247** | **23,076** | **18,119** | **(4,281)** | **172,503** |
| Total assets | **662,172** | **116,362** | **75,940** | **53,844** | **335,828** | **1,244,145** |
| Depreciation and amortization | **18,495** | **3,536** | **3,559** | **108** | **861** | **26,559** |
| Impairment loss of fixed assets | **–** | **47** | **–** | **–** | **–** | **47** |
| Capital expenditures | **$ 21,320** | **$ 3,726** | **$ 3,146** | **$ 2,310** | **$ 903** | **$ 31,405** |

## 15. Segment Information (continued)

*Business segment information (continued)*

(Note 1) The primary products of each business segment are as follows:

Industry A of Smelting industry consists of mainly zinc, lead, electric silver and sulfuric acid etc.

Industry B of Electric Material industry consists of battery material and building material etc.

Industry C of Environment and Recycling industry consists of Zinc oxide etc.

Other consists of Soundproofing construction materials etc.

(Note 2) As described in Note 1(i), effective from the year ended March 31, 2007, the Company applied "Accounting standard for directors' bonus" (Accounting Standard Board of Japan Statement No. 4 issued on November 29, 2005). As a result of the application of this standard, operating expenses for the year ended March 31, 2007 increased by ¥38 million in "Eliminations and corporate", and operating income decreased by the same amount

(Note 3) (Additional information)

As described in Note 1 (e), effective the year ended March 31, 2008, the Company and its domestic subsidiaries depreciate the difference between 5% of acquisition cost and nominal value by the straight-line method over a period of five years from the year following the year in which the accumulated depreciation has reached 95% of acquisition cost with respect to the tangible fixed assets acquired on or before March 31, 2007. As a result, operating income of Industry A, Industry B, Industry C and other decreased by ¥351 million ($3,512 thousand), ¥24 million ($245 thousand), ¥46 million ($467 thousand) and ¥14 million ($143 thousand), respectively for the year ended March 31, 2008 from the corresponding amounts which would have been reported under the previous method.

## 16. Related Party Transactions

The Company owns 25.8% of outstanding shares of CBH Resources Ltd., which operates mining business.

The transactions and account balances with CBH Resources Ltd. as of March 31 2008 was as follows:

- Transactions

| | Year ended March 31, | | | |
|---|---|---|---|---|
| | **2006** | **2007** | **2008** | **2008** |
| | *(Millions of yen)* | | | *(Thousands of U.S. dollars)* |
| Loans | ¥– | ¥1,361 | **¥ –** | **$ –** |
| Underwriting convertible bonds | – | 1,361 | **4,963** | **49,536** |
| Interests | – | 73 | **377** | **3,767** |

- Account balances

| | March 31, | | |
|---|---|---|---|
| | **2007** | **2008** | **2008** |
| | *(Millions of yen)* | | *(Thousands of U.S. dollars)* |
| Long-term loans receivable | ¥1,361 | **¥1,361** | **$13,588** |
| Investment securities | 2,367 | **5,822** | **58,112** |
| Other current assets | 31 | **208** | **2,082** |

Terms of transactions:

- Terms of loan and convertible bonds' interest rate are determined under general market conditions
- Terms of loan and convertible bonds' repayment period are 5 years.
- The collaterals for the loan and convertible bonds are not provided.

## 17. Inventories

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

| | March 31, 2007 | March 31, 2008 | March 31, 2008 |
|---|---|---|---|
| | *(Millions of yen)* | | *(Thousands of U.S. dollars)* |
| Finished goods | ¥ 5,854 | **¥ 6,911** | **$ 68,979** |
| Work in process | 5,410 | **6,028** | **60,168** |
| Raw materials and supplies | 9,266 | **13,577** | **135,511** |
| Total | ¥20,530 | **¥26,516** | **$264,658** |

## 18. Short-Term Borrowings and Long-Term Debt

Short-term borrowings and long-term debt at March 31, 2007 and 2008 consisted of the following:

| | March 31, 2007 | March 31, 2008 Amount | 2008 Weighted average interest rate | 2008 Last due on | March 31, 2008 |
|---|---|---|---|---|---|
| | *(Millions of yen)* | | | | *(Thousands of U.S. dollars)* |
| Short-term bank loans | ¥21,601 | **¥21,601** | **1.3%** | | **$215,600** |
| Current portion of long-term debt | 2,319 | **4,896** | **0.9** | | **48,869** |
| Long-term debt | 8,515 | **11,618** | **1.5** | **2009.4 ~ 2022.9** | **115,964** |
| Commercial papers | 8,000 | **3,000** | **0.8** | | **29,944** |
| Total | ¥40,435 | **¥41,115** | | | **$410,377** |

Average interest rates are calculated by using weighted-average interest rates as at March 31, 2008.

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

| **Year ending March 31,** | *(Millions of yen)* | *(Thousands of U.S. dollars)* |
|---|---|---|
| 2009 | **¥ 4,896** | **$ 48,869** |
| 2010 | **3,390** | **33,835** |
| 2011 | **5,855** | **58,441** |
| 2012 | **1,905** | **19,015** |
| 2013 | **425** | **4,244** |
| Thereafter | **43** | **429** |
| Total | **¥16,514** | **$164,833** |

## 18. Short-Term Borrowings and Long-Term Debt (continued)

Assets pledged as collateral for the short-term borrowings and the long-term debt at March 31, 2007 and 2008 were as follows:

| Pledged assets | March 31, 2007 | March 31, 2008 | March 31, 2008 |
|---|---|---|---|
| | *(Millions of yen)* | | *(Thousands of U.S. dollars)* |
| Land | ¥14,121 | **¥13,794** | **$137,686** |
| Buildings and structures | 4,715 | **5,037** | **50,267** |
| Machinery and equipment | 10,203 | **10,203** | **101,835** |
| Investment securities | 711 | **487** | **4,864** |
| Total | ¥29,750 | **¥29,521** | **$294,652** |

| | March 31, 2007 | March 31, 2008 | March 31, 2008 |
|---|---|---|---|
| | *(Millions of yen)* | | *(Thousands of U.S. dollars)* |
| Short-term bank loans | ¥ 30 | **¥ 30** | **$ 299** |
| Current portion of long-term debt | 2,318 | **2,122** | **21,180** |
| Long-term debt | 7,632 | **5,510** | **54,995** |
| Total | ¥9,980 | **¥7,662** | **$76,474** |