Kaga Electronics Co., Ltd. and Subsidiaries

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

INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
Kaga Electronics Co., Ltd.:

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

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Kaga Electronics 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.

Our audits also comprehended the translation of Japanese yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made in conformity with the basis stated in Note 1. Such U.S. dollar amounts are presented solely for the convenience of readers outside Japan.

June 27, 2008

Kaga Electronics Co., Ltd. and Subsidiaries

Consolidated Balance Sheets
March 31, 2008 and 2007

ASSETS	Millions of Yen 2008	Millions of Yen 2007	Thousands of U.S. Dollars (Note 1) 2008
CURRENT ASSETS:			
Cash and cash equivalents	¥ 14,012	¥ 14,558	$ 140,120
Marketable securities (Note 3)	84	264	840
Notes and accounts receivable:			
Trade	72,530	67,465	725,300
Other	4,606	3,674	46,060
Allowance for doubtful receivables	(162)	(252)	(1,620)
Inventories (Note 4)	20,178	19,727	201,780
Deferred tax assets (Note 10)	570	444	5,700
Prepaid expenses and other current assets (Note 14)	1,329	1,974	13,290
Total current assets	113,147	107,854	1,131,470
PROPERTY, PLANT AND EQUIPMENT (Note 2.e):			
Land	1,324	1,872	13,240
Buildings and structures	1,887	3,130	18,870
Machinery, equipment and vehicles	3,760	3,208	37,600
Molding dies and furniture	1,946	1,637	19,460
Construction in progress	606	8	6,060
Total	9,523	9,855	95,230
Accumulated depreciation	(4,108)	(4,360)	(41,080)
Net property, plant and equipment	5,415	5,495	54,150
INVESTMENTS AND OTHER ASSETS:			
Investment securities (Notes 3 and 14)	6,596	6,993	65,960
Guarantee deposits	1,946	2,331	19,460
Refundable insurance premium	872	830	8,720
Deferred tax assets (Note 10)	213	81	2,130
Other assets	2,234	2,229	22,340
Total investments and other assets	11,861	12,464	118,610
TOTAL	¥ 130,423	¥ 125,813	$ 1,304,230

LIABILITIES AND EQUITY	Millions of Yen 2008	Millions of Yen 2007	Thousands of U.S. Dollars (Note 1) 2008
CURRENT LIABILITIES:			
Short-term bank loans (Note 5)	¥ 10,073	¥ 4,545	$ 100,730
Current portion of long-term bank loans (Note 6)	1,624	2,500	16,240
Notes and accounts payable:			
Trade	56,110	54,218	561,100
Other	1,207	1,195	12,070
Income taxes payable (Note 10)	2,239	1,831	22,390
Accrued expenses and other current liabilities (Note 13)	3,208	2,770	32,080
Total current liabilities	74,461	67,059	744,610
LONG-TERM LIABILITIES:			
Long-term bank loans (Note 6)	625	2,378	6,250
Liability for employees' retirement benefits (Note 7)	1,159	1,076	11,590
Retirement benefits for directors and corporate auditors (Note 7)	1,005	1,149	10,050
Deferred tax liabilities (Note 10)	546	703	5,460
Other long-term liabilities (Note 13)	435	398	4,350
Total long-term liabilities	3,770	5,704	37,700
COMMITMENTS AND CONTINGENT LIABILITIES (Notes 13 and 16)			
EQUITY (Notes 8 and 18):			
Common stock—authorized, 80,000,000 shares; issued, 28,702,118 shares in 2008 and 2007	12,134	12,134	121,340
Capital surplus	13,912	13,912	139,120
Retained earnings	27,413	25,162	274,130
Unrealized gain on available-for-sale securities	37	758	370
Deferred gain (loss) on derivatives under hedge accounting	3	(1)	30
Foreign currency translation adjustments	(515)	1,030	(5,150)
Treasury stock—at cost, 643,305 shares in 2008 and 45,156 shares in 2007	(843)	(80)	(8,430)
Total	52,141	52,915	521,410
Minority interests	51	135	510
Total equity	52,192	53,050	521,920
TOTAL	¥ 130,423	¥ 125,813	$ 1,304,230

See notes to consolidated financial statements.

Kaga Electronics Co., Ltd. and Subsidiaries

Consolidated Statements of Income
Years Ended March 31, 2008 and 2007

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2008	2007	2008
NET SALES (Note 19)	¥ 291,331	¥ 269,015	$ 2,913,310
COST OF SALES (Notes 11, 12 and 19)	256,090	236,215	2,560,900
Gross profit	35,241	32,800	352,410
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES (Notes 11, 12 and 19)	27,455	25,884	274,550
Operating income	7,786	6,916	77,860
OTHER (EXPENSES) INCOME:			
Interest and dividend income	314	200	3,140
Gain on sales of fixed assets	1,170	78	11,700
Interest expense	(128)	(172)	(1,280)
Exchange loss	(1,275)	(13)	(12,750)
Other—net (Notes 2.f, 2.i, 7 and 9)	(454)	401	(4,540)
Other (expenses) income—net	(373)	494	(3,730)
INCOME BEFORE INCOME TAXES AND MINORITY INTERESTS	7,413	7,410	74,130
INCOME TAXES (Note 10):			
Current	3,694	3,271	36,940
Deferred	99	(143)	990
Total income taxes	3,793	3,128	37,930
MINORITY INTERESTS IN NET LOSS	(64)	(61)	(640)
NET INCOME	¥ 3,684	¥ 4,343	$ 36,840

	Yen		U.S. Dollars
PER SHARE OF COMMON STOCK (Note 2.s):			
Basic net income	¥ 128.93	¥ 151.55	$ 1.29
Cash dividends applicable to the year (Note 8)	50.00	45.00	0.50

See notes to consolidated financial statements.

Kaga Electronics Co., Ltd. and Subsidiaries

Consolidated Statements of Changes in Equity
Years Ended March 31, 2008 and 2007

	Thousands	Millions of Yen									
	Outstanding Number of Shares of Common Stock	Common Stock	Capital Surplus	Retained Earnings	Unrealized Gain on Available-for-sale Securities	Deferred Gain (Loss) on Derivatives under Hedge Accounting	Foreign Currency Translation Adjustments	Treasury Stock	Total	Minority Interests	Total Equity
BALANCE, APRIL 1, 2006	28,660	¥ 12,134	¥ 13,912	¥ 22,430	¥ 1,020		¥ 420	¥ (76)	¥ 49,840		¥ 49,840
Reclassified balance as of April 1, 2006 (Note 2.j)										¥ 329	329
Net income				4,343					4,343		4,343
Cash dividends, ¥50 per share				(1,432)					(1,432)		(1,432)
Bonuses to directors and corporate auditors				(179)					(179)		(179)
Purchase of treasury stock	(3)							(4)	(4)		(4)
Net change in the year					(262)	¥ (1)	610		347	(194)	153
BALANCE, MARCH 31, 2007	28,657	12,134	13,912	25,162	758	(1)	1,030	(80)	52,915	135	53,050
Net income				3,684					3,684		3,684
Cash dividends, ¥50 per share				(1,433)					(1,433)		(1,433)
Purchase of treasury stock	(602)							(770)	(770)		(770)
Disposal of treasury stock	4							7	7		7
Net change in the year					(721)	4	(1,545)		(2,262)	(84)	(2,346)
BALANCE, MARCH 31, 2008	28,059	¥ 12,134	¥ 13,912	¥ 27,413	¥ 37	¥ 3	¥ (515)	¥ (843)	¥ 52,141	¥ 51	¥ 52,192

	Thousands of U.S. Dollars (Note 1)									
	Common Stock	Capital Surplus	Retained Earnings	Unrealized Gain on Available-for-sale Securities	Deferred Gain (Loss) on Derivatives under Hedge Accounting	Foreign Currency Translation Adjustments	Treasury Stock	Total	Minority Interests	Total Equity
BALANCE, MARCH 31, 2007	$ 121,340	$ 139,120	$ 251,620	$ 7,580	$ (10)	$ 10,300	$ (800)	$ 529,150	$ 1,350	$ 530,500
Net income			36,840					36,840		36,840
Cash dividends, $0.5 per share			(14,330)					(14,330)		(14,330)
Purchase of treasury stock							(7,700)	(7,700)		(7,700)
Disposal of treasury stock							70	70		70
Net change in the year				(7,210)	40	(15,450)		(22,620)	(840)	(23,460)
BALANCE, MARCH 31, 2008	$ 121,340	$ 139,120	$ 274,130	$ 370	$ 30	$ (5,150)	$ (8,430)	$ 521,410	$ 510	$ 521,920

See notes to consolidated financial statements.

Kaga Electronics Co., Ltd. and Subsidiaries

Consolidated Statements of Cash Flows
Years Ended March 31, 2008 and 2007

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2008	2007	2008
OPERATING ACTIVITIES:			
Income before income taxes and minority interests	¥ 7,413	¥ 7,410	$ 74,130
Adjustments for:			
Income taxes—paid	(3,319)	(4,558)	(33,190)
Depreciation and amortization	1,438	1,257	14,380
Impairment loss	15		150
Equity in loss of investments	111	39	1,110
Loss on disposals of property, plant and equipment	92	151	920
(Reversal of) provision for directors' and corporate auditors' bonuses	(20)	157	(200)
Gain on sales of marketable and investment securities	(31)	(135)	(310)
Loss on revaluation on marketable securities and investment securities	180	188	1,800
Gain on sales of property, plant and equipment	(1,163)	(74)	(11,630)
Provision for employees' retirement benefits	79	41	790
(Reversal of) provision for directors' and corporate auditors' retirement benefits	(144)	64	(1,440)
Provision for (reversal of) doubtful accounts	267	(578)	2,670
Payment of directors' and corporate auditors' bonuses		(179)	
Other—net	(13)	17	(130)
Changes in assets and liabilities:			
Increase in notes and accounts receivable	(6,051)	(5,255)	(60,510)
Increase in inventories	(1,265)	(4,332)	(12,650)
(Increase) decrease in advance to supplier	(430)	9	(4,300)
Decrease in interest and dividend receivable	374	220	3,740
Decrease (increase) in prepaid expenses and other current assets	63	(915)	630
Increase in trade notes and accounts payable	2,784	5,316	27,840
Increase in accrued expenses and other current liabilities	394	226	3,940
Decrease in interest payable	(133)	(190)	(1,330)
Total adjustments	(6,772)	(8,531)	(67,720)
Net cash provided by (used in) operating activities—(Forward)	¥ 641	¥ (1,121)	$ 6,410

(Continued)

Kaga Electronics Co., Ltd. and Subsidiaries

Consolidated Statements of Cash Flows
Years Ended March 31, 2008 and 2007

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2008	2007	2008
Net cash provided by (used in) operating activities—(Forward)	¥ 641	¥ (1,121)	$ 6,410
INVESTING ACTIVITIES:			
Purchases of property, plant and equipment	(1,503)	(1,112)	(15,030)
Purchases of trading securities	(850)		(8,500)
Purchases of investment securities	(1,401)	(1,589)	(14,010)
Purchases of intangible assets	(321)	(315)	(3,210)
Proceeds from sales of property, plant and equipment	2,120	250	21,200
Proceeds from sales of trading securities	961		9,610
Proceeds from sales of investment securities	331	1,084	3,310
Payment for newly consolidated subsidiary, net of cash acquired	(150)	(363)	(1,500)
Decrease (increase) in short-term loan receivable	77	(97)	770
Increase in long-term loan receivable	(91)	(30)	(910)
(Increase) decrease in refundable insurance premium—net	(42)	82	(420)
Decrease in guarantee deposits—net	65	56	650
Payment for sale of subsidiaries' stock related to changes in the scope of consolidation	(2)	(24)	(20)
Other—net	87	(84)	870
Net cash used in investing activities	(719)	(2,142)	(7,190)
FINANCING ACTIVITIES:			
Increase in short-term bank loans—net	5,584	1,359	55,840
Repayments of long-term bank loans	(2,660)	(2,571)	(26,600)
Dividends paid	(1,443)	(1,449)	(14,430)
Purchases of treasury stock—net	(770)	(6)	(7,700)
Other—net	7	81	70
Net cash provided by (used in) financing activities	718	(2,586)	7,180
FOREIGN CURRENCY TRANSLATION ADJUSTMENTS ON CASH AND CASH EQUIVALENTS	(1,186)	275	(11,860)
NET DECREASE IN CASH AND CASH EQUIVALENTS	(546)	(5,574)	(5,460)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	14,558	20,132	145,580
CASH AND CASH EQUIVALENTS, END OF YEAR	¥ 14,012	¥ 14,558	$ 140,120

(Continued)

Kaga Electronics Co., Ltd. and Subsidiaries

Consolidated Statements of Cash Flows
Years Ended March 31, 2008 and 2007

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2008	2007	2008
ADDITIONAL CASH FLOW INFORMATION:			
Purchase of a newly consolidated subsidiary:			
Fair value of assets acquired	¥ 1,793	¥ 1,717	$ 17,930
Liabilities assumed	785	1,070	7,850
Cash paid for the capital	1,009	647	10,090
Effect of deconsolidation of subsidiaries upon sales of their stocks to third parties:			
Assets decreased	80	67	800
Liabilities decreased	28	23	280
(Loss) gain on sales of investment in and advances to subsidiaries	(3)	21	(30)
Cash paid in the capital	49	65	490

See notes to consolidated financial statements.

(Concluded)

1. BASIS OF PRESENTING CONSOLIDATED FINANCIAL STATEMENTS

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

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

The consolidated financial statements are stated in Japanese yen, the currency of the country in which Kaga Electronics Co., Ltd. (the "Company") is incorporated and operates. The translations of Japanese yen amounts into U.S. dollar amounts are included solely for the convenience of readers outside Japan and have been made at the rate of ¥100 to $1, the approximate rate of exchange at March 31, 2008. Such translations should not be construed as representations that the Japanese yen amounts could be converted into U.S. dollars at that or any other rate.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a. ***Consolidation—***The consolidated financial statements include the accounts of the Company and all of its subsidiaries (42 in 2008 and 40 in 2007) (together, the "Group").

Under the control and influence concept, those companies in which the Company, directly or indirectly, is able to exercise control over operations are fully consolidated, and those companies over which the Group has the ability to exercise significant influence are accounted for by the equity method.

Investments in seven (seven in 2007) associated companies are accounted for by the equity method.

The excess of the cost of an acquisition over the fair value of the net assets of the acquired subsidiary at the date of acquisition is being amortized over a period of five years.

All significant intercompany balances and transactions have been eliminated in consolidation. All material unrealized profit included in assets resulting from transactions within the Group is eliminated.

b. ***Cash Equivalents—***Cash equivalents are short-term investments that are readily convertible into cash and that are exposed to insignificant risk of changes in value. Cash equivalents include time deposits and short-term investments, all of which mature or become due within three months of the date of acquisition.

c. ***Inventories***

The Company and a Domestic Subsidiary:

Specific merchandise inventories ordered by customers are stated at cost determined by the specific identification method. Other merchandise inventories are stated at cost determined principally by the moving-average method.

For a portion of other domestic subsidiaries, inventories are stated at cost determined principally by the first-in, first-out method, and the lower of cost, determined principally by the first-in, first-out method, or market for the inventories of the overseas subsidiaries.

d. ***Marketable and Investment Securities—***Marketable and investment securities are classified and accounted for, depending on management's intent, as follows: (1) trading securities, which are held for the purpose of earning capital gains in the near term are reported at fair value, and the related unrealized gains and losses are included in the earnings, and (2) available-for-sale securities, which are not classified as the aforementioned securities are reported at fair value, with unrealized gains and losses, net of applicable taxes, reported in a separate component of equity.

Non-marketable available-for-sale securities are stated at cost determined by the moving-average method.

For other than temporary declines in fair value, investment securities are reduced to net realizable value by a charge to income.

e. ***Property, Plant and Equipment—***Property, plant and equipment are stated at cost. Significant replacements and additions are capitalized; maintenance and repairs, and minor replacements and improvements are charged to income as incurred.

Depreciation of property, plant and equipment of the Company and its domestic subsidiaries is computed substantially by the declining-balance method at rates based on the estimated useful lives of the assets, while the straight-line method is applied to buildings of the Company and its domestic subsidiaries acquired on and after April 1, 1998, and all property, plant and equipment of foreign subsidiaries.

The range of useful lives is principally as follows:

Buildings and structures	10 to 50 years
Machinery, equipment and vehicles	8 to 12 years
Molding dies and furniture	2 to 20 years

f. ***Long-lived Assets—***The Group reviewed its long-lived assets for impairment as of March 31, 2008 and, as a result, recognized an impairment loss of ¥15 million ($150 thousand) as other expense for certain project processing buildings and structures in Shinagawa due to a continuous operating loss of that unit, and the carrying amount of the relevant long-lived assets was written down to the recoverable amount. The recoverable amount was measured at its value in use and the discount rate used for computation of present value of future cash flows was 3%.

g. ***Goodwill—***Purchased goodwill is amortized on a straight-line basis over five years.

h. ***Software—***Software was recorded as other assets and is amortized over five years.

i. ***Retirement and Pension Plans—***The Company and certain domestic subsidiaries implemented a defined benefit pension plan in March 2008 by which the tax-qualified pension plan was terminated. The effect of this transfer by reexamining the total amount of employees' retirement benefits made the Company and certain domestic subsidiaries recognize the prior service obligation, which was ¥649 million ($6,490 thousand). The prior service obligation is being amortized over ten years.

The Company and certain domestic subsidiaries terminated its contributory multi-employer pension plan "Tokyo Electronic Industry Employees' Pension Fund Organization" and implemented a defined contribution pension plan. The effect of this transfer was to decrease income before income taxes and minority interests by ¥740 million ($7,400 thousand) and was recorded as other—net in the consolidated statement of income for the year ended March 31, 2008 (see Note 9).

The liability for employees' retirement benefit is accounted for based on projected benefit obligations and plan assets at the balance sheet date.

Retirement benefits to directors and corporate auditors are provided at the amount which would be required if they retired at the balance sheet date.

j. ***Presentation of Equity—***On December 9, 2005, the Accounting Standards Board of Japan (the "ASBJ") published a new accounting standard for presentation of equity. Under this accounting standard, certain items which were previously presented as liabilities or assets, as the case may be, are now presented as components of equity. Such items include stock acquisition rights, minority interests, and any deferred gain or loss on derivatives accounted for under hedge accounting. This standard was effective for fiscal years ending on or after May 1, 2006. The balances of such items as of March 31, 2006 were reclassified as separate components of equity as of April 1, 2006 in the consolidated statement of changes in equity.

k. ***Leases—***All leases are accounted for as operating leases. Under Japanese accounting standards for leases, finance leases that do not transfer ownership of the leased property to the lessee are permitted to be accounted for as operating lease transactions if certain "as if capitalized" information is disclosed in the notes to the lessee's consolidated financial statements.

l. ***Bonuses to Directors and Corporate Auditors—***Bonuses to directors and corporate auditors are accrued at the year end to which such bonuses are attributable.

m. ***New Accounting Pronouncements***

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

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

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

Unification of Accounting Policies Applied to Foreign Subsidiaries for the Consolidated Financial Statements—Under Japanese GAAP, a company currently can use the financial statements of its foreign subsidiaries which have been prepared in accordance with generally accepted accounting principles in their respective jurisdictions for its consolidation process unless they are clearly unreasonable. On May 17, 2006, the ASBJ issued ASBJ Practical Issues Task Force (PITF) No. 18, "Practical Solution on Unification of Accounting Policies Applied to Foreign Subsidiaries for the Consolidated Financial Statements." The new standard prescribes: (1) the accounting policies and procedures applied to a parent company and its subsidiaries for similar transactions and events under similar circumstances should in principle be unified for the preparation of the consolidated financial statements, (2) financial statements prepared by foreign subsidiaries in accordance with either International Financial Reporting Standards or the generally accepted accounting principles in the United States tentatively may be used for the consolidation process, (3) however, the following items should be adjusted in the consolidation process so that net income is accounted for in accordance with Japanese GAAP unless they are not material;

(1) Amortization of goodwill
(2) Actuarial gains and losses of defined benefit plans recognized outside profit or loss
(3) Capitalization of intangible assets arising from development phases
(4) Fair value measurement of investment properties, and the revaluation model for property, plant and equipment, and intangible assets
(5) Retrospective application when accounting policies are changed
(6) Accounting for net income attributable to a minority interest

The new task force is effective for fiscal years beginning on or after April 1, 2008 with early adoption permitted.

n. ***Income Taxes—***The provision for income taxes is computed based on the pretax income included in the consolidated statements of income. The asset and liability approach is used to recognize deferred tax assets and liabilities for the expected future tax consequences of temporary differences between the carrying amounts and the tax bases of assets and liabilities. Deferred taxes are measured by applying currently enacted tax laws to the temporary differences.

o. ***Appropriations of Retained Earnings—***Appropriations of retained earnings are reflected in the financial statements for the following year upon shareholders' approval.

p. ***Foreign Currency Transactions—***All short-term and long-term monetary receivables and payables denominated in foreign currencies are translated into Japanese yen at the exchange rates at the balance sheet date. The foreign exchange gains and losses from translation are recognized in the income statement to the extent that they are not hedged by forward exchange contracts.

q. ***Foreign Currency Financial Statements—***The balance sheet accounts of the foreign subsidiaries are translated into Japanese yen at the current exchange rate as of the balance sheet date of subsidiaries except for equity, which is translated into Japanese yen at the historical rate.

Differences arising from such translation were shown as "Foreign currency translation adjustments" in a separate component of equity.

Revenue and expense accounts of foreign subsidiaries are translated into Japanese yen at the average exchange rate.

r. ***Derivatives and Hedging Activities—***The Group uses derivative financial instruments to manage its exposures to fluctuations in foreign exchange and interest rates. Foreign exchange forward contracts are utilized by the Group to reduce foreign currency exchange risk. The Group does not enter into derivatives for trading or speculative purposes.

Derivative financial instruments and foreign currency transactions are classified and accounted for as follows: (a) all derivatives be recognized as either assets or liabilities and measured at fair value, and gains or losses on derivative transactions are recognized in the consolidated statement of income; and (b) for derivatives used for hedging purposes, if derivatives qualify for hedge accounting because of high correlation and effectiveness between the hedging instruments and the hedged items, gains or losses on derivatives are deferred until maturity of the hedged transactions.

The foreign currency forward contracts are utilized to hedge foreign exchange exposures for export sales and in procurement of inventories from overseas suppliers. Trade receivables and payables denominated in foreign currencies are translated at the forward contract rates if the forward contracts qualify for hedge accounting. Forward contracts that hedge for forecasted transactions are measured and recorded at fair value but unrealized gains/losses are deferred until the underlying transactions are completed.

s. ***Per Share Information—***Basic net income per share is computed by dividing net income available to common shareholders by the weighted-average number of common shares outstanding for the period.

Diluted net income per share is not disclosed because it is anti-dilutive.

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

3. MARKETABLE AND INVESTMENT SECURITIES

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

	Millions of Yen		Thousands of U.S. Dollars
	2008	2007	2008
Current—Marketable equity securities	¥ 84	¥ 264	$ 840
Non-current:			
Marketable equity securities	¥ 4,420	¥ 4,728	$ 44,200
Non-marketable equity securities	1,100	1,028	11,000
Government and corporate bond	498	563	4,980
Investments in associated companies	50	46	500
Others	528	628	5,280
Total	¥ 6,596	¥ 6,993	$ 65,960

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

	Millions of Yen			
March 31, 2008	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Securities classified as:				
Trading				¥ 84
Available-for-sale—equity securities	¥ 3,936	¥ 1,243	¥ (759)	4,420
Government and corporate bonds	558		(60)	498
March 31, 2007				
Securities classified as:				
Trading				264
Available-for-sale—equity securities	3,279	1,639	(190)	4,728
Government and corporate bonds	558	8	(3)	563

	Thousands of U.S. Dollars			
March 31, 2008	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Securities classified as:				
Trading				$ 840
Available-for-sale—equity securities	$ 39,360	$ 12,430	$ (7,590)	44,200
Government and corporate bonds	5,580		(600)	4,980

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

	Carrying Amount		
	Millions of Yen		Thousands of U.S. Dollars
	2008	2007	2008
Available-for-sale—Equity securities	¥ 1,100	¥ 1,028	$ 11,000
Others	528	628	5,280

Proceeds from sales of available-for-sale securities were ¥214 million ($2,140 thousand) in 2008 and ¥991 million in 2007, respectively. Gross realized gains and losses on these sales, computed by the moving average cost basis, were ¥34 million ($340 thousand) and ¥3 million ($30 thousand) in 2008, respectively, and ¥150 million and ¥15 million in 2007, respectively (see Note 9).

The carrying values of debt securities by contractual maturities for securities classified as available-for-sale at March 31, 2008 are as follows:

	Millions of Yen	Thousands of U.S. Dollars
	Available for Sale	Available for Sale
Due after ten years	¥ 445	$ 4,450

4. INVENTORIES

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

	Millions of Yen		Thousands of U.S. Dollars
	2008	2007	2008
Merchandise	¥ 14,179	¥ 15,623	$ 141,790
Finished products	1,818	962	18,180
Semi-processed products	2		20
Work in process	507	491	5,070
Raw materials	3,665	2,646	36,650
Supplies	7	5	70
Total	¥ 20,178	¥ 19,727	$ 201,780

5. SHORT-TERM BANK LOANS

The annual average interest rates applicable to the bank loans were 1.2% and 4.4% for the years ended March 31, 2008 and 2007, respectively.

As is customary in Japan, the Company maintains deposit balances with banks with which it has bank loans. Such deposit balances are not legally or contractually restricted as to withdrawal.

Under certain basic agreements with banks, collateral must be provided if requested by the lending banks and certain banks have the right to offset cash deposited with them against any bank loan or obligation that becomes due and, in case of default and certain other specified events, against all other debt payable to the bank concerned. The Company has never received any such request.

6. LONG-TERM LOANS

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

	Millions of Yen		Thousands of U.S. Dollars
	2008	2007	2008
Unsecured loans from banks and insurance companies, 0.62% to 1.50%, due serially through June 2010	¥ 2,249	¥ 4,878	$ 22,490
Less current portion	(1,624)	(2,500)	(16,240)
Total long-term loans, less current portion	¥ 625	¥ 2,378	$ 6,250

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

Year Ending March 31	Millions of Yen	Thousands of U.S. Dollars
2009	¥ 1,624	$ 16,240
2010	625	6,250
Total	¥ 2,249	$ 22,490

7. RETIREMENT AND PENSION PLANS

Under the pension plan, employees terminating their employment are, in most circumstances, entitled to pension payments based on their average pay during their employment, length of service and certain other factors.

The liability (asset) for employees' retirement benefits at March 31, 2008 and 2007 consisted of the following:

	Carrying Amount		
	Millions of Yen		Thousands of U.S. Dollars
	2008	2007	2008
Projected benefit obligation	¥ 3,165	¥ 2,127	$ 31,650
Fair value of plan assets	(1,050)	(953)	(10,500)
Unrecognized actuarial loss	(323)	(98)	(3,230)
Unrecognized prior service cost	(633)		(6,330)
Net liability	¥ 1,159	¥ 1,076	$ 11,590

The components of net periodic benefit costs for the years ended March 31, 2008 and 2007 are as follows:

	Carrying Amount		
	Millions of Yen		Thousands of U.S. Dollars
	2008	2007	2008
Service cost	¥ 500	¥ 498	$ 5,000
Interest cost	26	24	260
Expected return on plan assets	(18)	(17)	(180)
Recognized actuarial loss	18	18	180
Recognized prior service cost	16		160
Net periodic benefit costs	¥ 542	¥ 523	$ 5,420

The above service cost contains contributions to the multi-employer pension plan of ¥240 million ($2,400 thousand) for 2008 and ¥254 million for 2007, respectively.

The effect of the switchover to the defined contribution pension plan, which is accounted as other—net, was ¥740 million ($7,400 thousand) for 2008 (see Note 9).

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

	2008	2007
Discount rate	2.0%	2.0%
Expected rate of return on plan assets	2.0%	2.0%
Recognition period of actuarial gain/loss	10 years	10 years
Recognition period of prior service obligation loss	10 years	

The retirement benefits for directors and corporate auditors of ¥1,005 million ($10,050 thousand) at March 31, 2008 are paid subject to the approval of the shareholders.

8. EQUITY

Since May 1, 2006, Japanese companies have been subject to the Corporate Law of Japan (the "Corporate Law"), which reformed and replaced the Commercial Code of Japan. The significant provisions in the Corporate Law that affect financial and accounting matters are summarized below:

a. Dividends

Under the Corporate Law, companies can pay dividends at any time during the fiscal year in addition to the year-end dividend upon resolution at the shareholders meeting. For companies that meet certain criteria such as; (1) having the Board of Directors, (2) having independent auditors, (3) having the Board of Corporate Auditors, and (4) the term of service of the directors is prescribed as one year rather than two years of normal term by its articles of incorporation, the Board of Directors may declare dividends (except for dividends in kind) at any time during the fiscal year if the company has prescribed so in its articles of incorporation. However, the Company cannot do so because it does not meet all the above criteria.

Semiannual interim dividends may also be paid once a year upon resolution by the Board of Directors if the articles of incorporation of the company so stipulate. The Corporate Law provides certain limitations on the amounts available for dividends or the purchase of treasury stock. The limitation is defined as the amount available for distribution to the shareholders, but the amount of net assets after dividends must be maintained at no less than ¥3 million.

b. Increases/Decreases and Transfer of Common Stock, Reserve and Surplus

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

c. Treasury Stock and Treasury Stock Acquisition Rights

The Corporate Law also provides for companies to purchase treasury stock and dispose of such treasury stock by resolution of the Board of Directors. The amount of treasury stock purchased cannot exceed the amount available for distribution to the shareholders which is determined by specific formula.

Under the Corporate Law, stock acquisition rights, which were previously presented as a liability, are now presented as a separate component of equity.

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

9. OTHER INCOME (EXPENSES)—OTHER—NET

Other income (expenses)—other—net consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2008	2007	2008
Commission fee	¥ 153	¥ 146	$ 1,530
Equity in loss of investments	(111)	(39)	(1,110)
Gain on sales of marketable and investment securities	31	135	310
Insurance premiums refunded cancellation	501		5,010
Loss on disposal of property, plant and equipment	(92)	(151)	(920)
Loss on revaluation of marketable and investment securities	(180)	(188)	(1,800)
Provision of allowance for doubtful accounts	(237)	431	(2,370)
Payment for retirement of pension fund	(740)		(7,400)
Other income—net	221	67	2,210
Other (expenses) income—other—net	¥ (454)	¥ 401	$ (4,540)

10. INCOME TAXES

The Company and its domestic subsidiaries are subject to Japanese national and local income taxes which, in the aggregate, resulted in a normal effective statutory tax rate of approximately 41% for the years ended March 31, 2008 and 2007.

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

	Millions of Yen		Thousands of U.S. Dollars
	2008	2007	2008
Deferred tax assets:			
Devaluation loss on investment securities	¥ 23	¥ 24	$ 230
Accrued enterprise tax	172	137	1,720
Devaluation loss on unlisted stock	98	83	980
Retirement benefit for directors	408	449	4,080
Allowance for doubtful accounts	278	250	2,780
Accrued bonuses	240	187	2,400
Retirement benefit for employees	427	192	4,270
Tax loss carryforwards	1,643	971	16,430
Devaluation of golf membership	74	70	740
Unrealized loss on available-for-sale securities	32		320
Loss on investments in subsidiaries under liquidation proceedings	90	229	900
Other	239	169	2,390
Sub-total	3,724	2,761	37,240
Less valuation allowance	(1,995)	(970)	(19,950)
Deferred tax assets—total	1,729	1,791	17,290
Deferred tax liabilities:			
Undistributed earnings of overseas subsidiaries	(812)	(801)	(8,120)
Unrealized gain on property and equipment	15	(409)	150
Unrealized gain on available-for-sale securities	(245)	(732)	(2,450)
Advanced depreciation on fixed assets	(422)		(4,220)
Other	(40)	(27)	(400)
Deferred tax liabilities—total	(1,504)	(1,969)	(15,040)
Net deferred tax assets (liabilities)	¥ 225	¥ (178)	$ 2,250

A reconciliation between the normal effective statutory tax rate and the actual effective tax rate reflected in the accompanying consolidated statements of income for the year ended March 31, 2008 is as follows:

	2008
Normal effective statutory tax rate	41%
Dividend received deduction	2
Expenses not deductible for income tax purposes	3
Foreign tax credit	(2)
Tax benefits not recognized on operating losses of subsidiaries	17
Lower income tax rates applicable to income in certain foreign countries	(9)
Other—net	(7)
Actual effective tax rate	45%

A reconciliation between the normal effective statutory tax rate and the actual effective tax rate for the year ended March 31, 2007 is omitted because this reconciliation between the normal effective statutory tax rate and the actual effective tax rate is less than five hundredths of the normal effective statutory tax rate.

At March 31, 2008, certain subsidiaries have tax loss carryforwards aggregating approximately ¥4,607 million ($46,070 thousand) which are available to be offset against future taxable income of such subsidiaries in future years. These loss carryforwards, if not utilized, will expire as follows:

Year Ending March 31	Millions of Yen	Thousands of U.S. Dollars
2012	¥ 29	$ 290
2013	153	1,530
2014	1,334	13,340
2015	3,091	30,910
Total	¥ 4,607	$ 46,070

11. DEPRECIATION OF PROPERTY, PLANT AND EQUIPMENT

Depreciation of property, plant and equipment was ¥893 million ($8,930 thousand) and ¥792 million for the years ended March 31, 2008 and 2007, respectively.

12. RESEARCH AND DEVELOPMENT COSTS

Research and development costs charged to income were ¥1,455 million ($14,550 thousand) and ¥965 million for the years ended March 31, 2008 and 2007, respectively.

13. LEASES

The Group leases buildings, machinery, equipment and vehicles and other assets. Total lease payments under finance leases for the years ended March 31, 2008 and 2007 were ¥186 million ($1,860 thousand) and ¥181 million, respectively.

For the year ended March 31, 2008, the Group recorded an impairment loss of ¥7 million ($70 thousand) on certain leased property held under finance leases that do not transfer ownership and an allowance for impairment loss on leased property.

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

	Millions of Yen					
	2008			2007		
	Machinery, Equipment and Vehicles	Molding Dies and Furniture	Total	Machinery, Equipment and Vehicles	Molding Dies and Furniture	Total
Acquisition cost	¥ 97	¥ 805	¥ 902	¥ 116	¥ 844	¥ 960
Accumulated depreciation	27	397	424	20	387	407
Accumulated impairment loss		7	7			
Net leased property	¥ 70	¥ 401	¥ 471	¥ 96	¥ 457	¥ 553

	Thousands of U.S. Dollars		
	2008		
	Machinery, Equipment and Vehicles	Molding Dies and Furniture	Total
Acquisition cost	$ 970	$ 8,050	$ 9,020
Accumulated depreciation	270	3,970	4,240
Accumulated impairment loss		70	70
Net leased property	$ 700	$ 4,010	$ 4,710

Obligations under finance leases:

	Millions of Yen		Thousands of U.S. Dollars
	2008	2007	2008
Due within one year	¥ 161	¥ 165	$ 1,610
Due after one year	332	397	3,320
Total	¥ 493	¥ 562	$ 4,930

Allowance for impairment loss on leased property of ¥7 million ($70 thousand) as of March 31, 2008 is not included in obligations under finance leases.

Depreciation expense which is not reflected in the accompanying consolidated statements of income, computed by the straight-line method was ¥173 million ($1,730 thousand) and ¥173 million for the years ended March 31, 2008 and 2007, respectively.

The imputed interest expense portion which is computed using the interest method is excluded from the above obligations under finance leases.

The minimum rental commitments under noncancelable operating leases at March 31, 2008 and 2007 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2008	2007	2008
Due within one year	¥ 34	¥ 44	$ 340
Due after one year	49	74	490
Total	¥ 83	¥ 118	$ 830

14. ASSETS PLEDGED AS COLLATERAL

At March 31, 2008, investment securities of ¥16 million ($160 thousand) and time deposit of ¥10 million ($100 thousand) were deposited with vendors as collateral for trade guarantees.

15. DERIVATIVES

The Group enters into foreign exchange forward contracts to hedge market risk from the changes in foreign exchange rates associated with assets and liabilities denominated in foreign currencies. The Group may also enter into derivative financial instruments including currency swaps and interest rate swaps to reduce the exposure to fluctuation in foreign exchange rates and interest rates.

It is the Group's policy to use derivatives for the purpose of reducing market risks associated with assets and liabilities. The Group does not enter into derivative contracts for trading or speculative purposes.

Derivatives are subject to market and credit risk. The Group, however, does not anticipate any credit losses, because the counterparties to those derivatives are limited to major financial institutions.

Each business department executes foreign exchange forward contracts, which are limited to the normal course of business. Other derivatives such as swap transactions relating to financing activities are executed by the accounting department in accordance with authorization rules. The administrative department controls the position of derivative transactions. The manager of the accounting department periodically provides detailed reports of derivative transactions to management.

16. CONTINGENT LIABILITIES

Contingent liabilities at March 31, 2008 for employees' loans guaranteed amounted to ¥61 million ($610 thousand) and for ELATEC VERTRIEBS GMBH, which is equity-method affiliate, loan from bank loans guaranteed amounted to ¥40 million ($400 thousand).

17. CONTINGENT LOSS

Regarding software development entrusted to a domestic subsidiary, which totals up to ¥475 million ($4,750 thousand), the delivery was delayed and under discussion, and the contract was canceled by the customer on May 7, 2008. A careful survey is being completed and the problem is under discussion with management. However, it is impossible to estimate the reasonable impact at this point. There is a possibility it will affect the results of the Company according to circumstances. Concerning this item, work in process is ¥15 million ($150 thousand) and advance payment to the consignee is ¥124 million ($1,240 thousand) as of March 31, 2008. These two accounts are recognized on the consolidated balance sheet as of March 31, 2008.

18. SUBSEQUENT EVENT

The following appropriations of retained earnings at March 31, 2008 will be approved at the Company's shareholders meeting held on June 27, 2008:

	Millions of Yen	Thousands of U.S. Dollars
Year-end cash dividends, ¥25.00 ($0.25) per share	¥ 701	$ 7,010
Other reserve	1,200	12,000
Total	¥ 1,901	$ 19,010

19. SEGMENT INFORMATION

a. Operations in Different Industries

The Company and subsidiaries operate within one business segment, which is the electronic component trading business.

b. Operations by Geographic Area

The following table shows segment information by geographic area for the years ended March 31, 2008 and 2007:

	Millions of Yen					
	2008					
	Japan	North America	Europe	East Asia	Eliminations or Corporate	Consolidated
(1) Sales and operating income						
Sales:						
Outside customers	¥ 234,106	¥ 1,012	¥ 2,545	¥ 53,668		¥ 291,331
Interarea	16,505	404	143	9,425	¥ (26,477)	
Total sales	250,611	1,416	2,688	63,093	(26,477)	291,331
Operating expenses	245,201	1,549	2,872	60,756	(26,833)	283,545
Operating income (loss)	¥ 5,410	¥ (133)	¥ (184)	¥ 2,337	¥ 356	¥ 7,786
(2) Total assets	¥ 107,045	¥ 389	¥ 1,853	¥ 25,604	¥ (4,468)	¥ 130,423

	Japan	North America	Europe	East Asia	Eliminations or Corporate	Consolidated
	Thousands of U.S. Dollars					
	2008					
(1) Sales and operating income						
Sales:						
Outside customers	$ 2,341,060	$ 10,120	$ 25,450	$ 536,680		$ 2,913,310
Interarea	165,050	4,040	1,430	94,250	$ (264,770)	
Total sales	2,506,110	14,160	26,880	630,930	(264,770)	2,913,310
Operating expenses	2,452,010	15,490	28,720	607,560	(268,330)	2,835,450
Operating income (loss)	$ 54,100	$ (1,330)	$ (1,840)	$ 23,370	$ 3,560	$ 77,860
(2) Total assets	$ 1,070,450	$ 3,890	$ 18,530	$ 256,040	$ (44,680)	$ 1,304,230

	Japan	North America	Europe	East Asia	Eliminations or Corporate	Consolidated
	Millions of Yen					
	2007					
(1) Sales and operating income						
Sales:						
Outside customers	¥ 213,510	¥ 1,667	¥ 978	¥ 52,860		¥ 269,015
Interarea	17,383	597	148	7,806	¥ (25,934)	
Total sales	230,893	2,264	1,126	60,666	(25,934)	269,015
Operating expenses	226,374	2,272	1,101	58,200	(25,848)	262,099
Operating income (loss)	¥ 4,519	¥ (8)	¥ 25	¥ 2,466	¥ (86)	¥ 6,916
(2) Total assets	¥ 104,099	¥ 842	¥ 434	¥ 24,130	¥ (3,692)	¥ 125,813

c. *Sales to Foreign Customers*

Sales to foreign customers for the years ended March 31, 2008 and 2007 are as follows:

	Millions of Yen 2008	Millions of Yen 2007	Thousands of U.S. Dollars 2008
Sales to:			
North America	¥ 2,533	¥ 2,417	$ 25,330
Europe	4,646	2,429	46,460
East Asia	65,260	71,012	652,600
Total	¥ 72,439	¥ 75,858	$ 724,390

* * * * * *

8. Distribution of Report Copies (AAPMS GEN 260)

To Whom	Address	Method of Delivery	No. of Copies
経理部 千秋様	１１３－８５０３ 東京都文京区本郷二丁目２番９号 センチュリータワー 加賀電子株式会社 Tel: 03-4455-3111	宅配便	5
	外部印刷用Opinion（L/H サイン有り）		(1)
	Wordファイル	E-mail 1-1班 油良俊寛	

Others (attach listing)	
To this office—Report Archive File	1
To this office—W/P File (To 吉川朋弥（1-1班）)	1
To this office—Partner (To 中井新太郎 ptr.（A）)	1
Total	8 + (1)

１１３－８５０３
東京都文京区本郷二丁目２番９号
センチュリータワー
加賀電子株式会社
経理部
千秋様

03-4455-3111
東京都文京区本郷二丁目２番９号
センチュリータワー
加賀電子株式会社

経理部　　　千　秋