ANNUAL REPORT 2007

For the year ended March 31, 2007

HANWA CO., LTD.

阪和興業株式会社

Corporate Profile

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

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

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

About the Cover

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

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

Contents

Financial Highlights

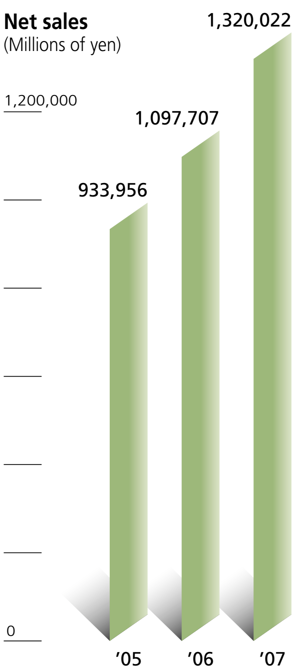
For the years ended March 31, 2007 and 2006

	Millions of yen		Thousands of U.S. dollars	
	2007	2006	**2007**	2006
For the year:				
Net sales	**¥ 1,320,022**	¥ 1,097,707	**$ 11,181,889**	$ 9,298,662
Operating income	**20,865**	19,690	**176,747**	166,794
Net income	**11,423**	10,504	**96,764**	88,979
At year-end:				
Total assets	**¥ 476,179**	¥ 413,020	**$ 4,033,706**	$ 3,498,687
Total net assets	**98,254**	86,954	**832,308**	736,585

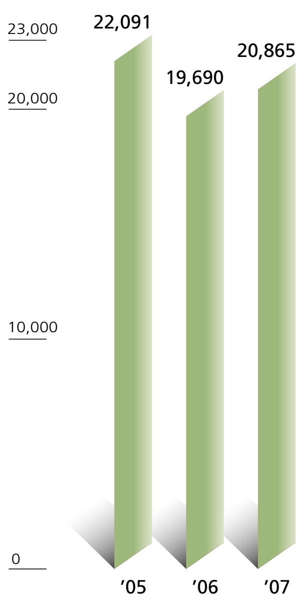
	Yen		U.S. dollars	
	2007	2006	**2007**	2006
Per share data:				
Net income	**¥ 54.03**	¥ 48.96	**$ 0.458**	$ 0.415
Cash dividends	**12.00**	10.00	**0.102**	0.085

Note: 1. The U.S. dollar amounts represent translations, for convenience only, of yen amounts at the rate of ¥118.05=$1.00.
2. The cash dividends per share for the year ended March 31, 2007 include a ¥2 ($0.017) commemorative dividend in celebration of the 60th anniversary of the Company's establishment.

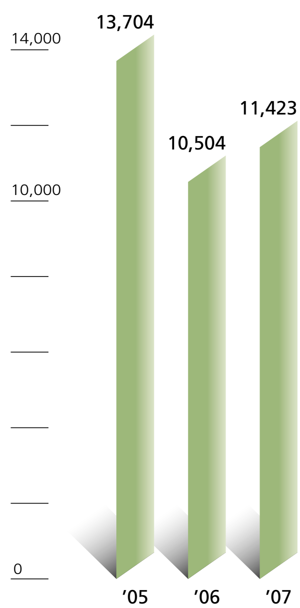
Net sales
(Millions of yen)



Operating income
(Millions of yen)



Net income
(Millions of yen)



Letter to Stakeholders

Dear Stakeholders,

I am pleased to report that Hanwa Co., Ltd. and its consolidated subsidiaries achieved strong sales and earnings in fiscal 2006, the fiscal year that ended in March 2007. Consolidated net sales increased 20.3% to ¥1,320.0 billion, a record high. On profit side, by expansion of non-ferrous business, operating income increased 6.0% to ¥20.8 billion and net income increased 8.8% to ¥11.4 billion. However, the return on equity declined 0.8 points to 12.4%. The net debt-to-equity ratio increased 30 points to 170%, due to increasing interest-bearing debt in correspondence with increasing demand of operating funds.

Management Policy

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

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

Dividend Policy

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

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

Management Targets

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

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

Medium- and Long-term Strategy, and Management Issues

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

(A) Strengthening the core business

Steel business

- Enhancement of processing functions for construction, proposal-driven marketing and steel service business
- Further development in various fields through proposal-driven marketing and interdivisional cooperation

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

Non-ferrous metal business

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

Food products business

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

Petroleum and chemicals business

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

Other businesses

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

Integrated development to China

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

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

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

(C) Promotion of ecology and recycling business

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

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

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

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

- Promoting business alliance with companies, which strengthen our function and supplement each other. Development of M&A. Support for business succession
- Strengthening and expansion of distribution business by cooperation between Hanwa Logistics and other distribution companies
- Cooperative development of new business scheme with customers in each area
- Cooperative scheme with processors to support Japanese manufacturers in overseas
- Strengthening the field of food processing by cooperation with food processors
- Supposed total investment from FY2007 through FY2009 ... 20 billion yen — "strategic business investment" besides "investment aiming of strengthening business functions"

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

Corporate Governance

Basic corporate governance policy

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

Corporate governance structures

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

The Board of Auditors reports to the General Shareholder's Meeting. The Board of Directors meets as a rule once a month to oversee important business plans and proposals concerning the Hanwa Group, and to deliberate and decide all key business policies.

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

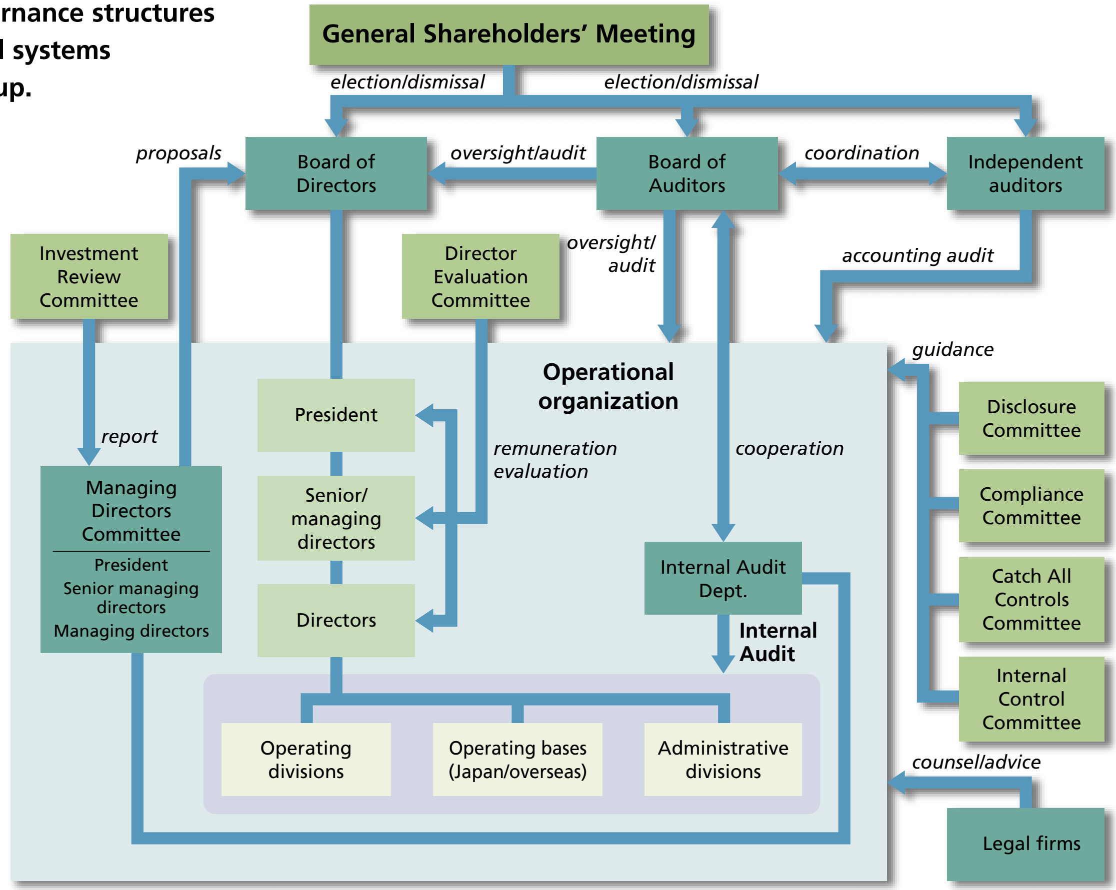
Chaired by the president, the Director Evaluation Committee meets two times a year, which is charged with assessing commitments made by directors and making overall performance evaluations on a mutual basis. Director remuneration and assignments reflect the level of evaluation, in line with meritocratic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

Internal control and risk management system

The Board of Directors, at its meeting held on May 10, 2006, defined for the establishment of the system for ensuring the Directors' execution of operations comply with Laws, Regulations and Articles of Incorporation.

1. Systems to ensure that performance of duties by its directors and employees complies with laws and regulations and its articles of incorporation
   a) Established standards for corporate ethics and ethical behavior in accordance with the company creed, guidelines and other elements of the Hanwa's corporate philosophy.
   b) Established a Compliance Committee chaired by Hanwa's president to prepare a compliance manual for distribution to all Hanwa executives and employees. In addition, the committee will verify that compliance programs are being used effectively.
   c) Established a consultation service (using the Compliance Committee and external attorneys) where all Hanwa Group executives and employees can obtain advice concerning compliance matters, providing a means of directly reporting compliance problems.

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



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

3. Regulations and systems related to management of risk of loss
   a) Directors and department managers work with the Legal & Credit Department to manage and reduce risks associated with business activities. This involves making all business units aware of regulations for credit management and business operations, and ensuring compliance with these regulations. In addition, there is an Investment Examination Committee that manages investment risks by studying proposals for new business ventures and new investments.
   b) Each business department will cooperate with the General Affairs Department, Information Systems Department, Legal & Credit Department and other units concerning compliance, environmental management, emergency responses, information security, export management and other matters. These risks will be managed in accordance with internal rules, manuals and other guidelines. The Internal Controls Committee, Compliance Committee, Catch All Controls Committee and other applicable committees will assist the departments by providing advice and educational support. Advice from external attorneys and other experts will be used as required.
   c) The Personnel Department works with related departments to conduct the training and other educational activities needed to make employees more aware of the importance of risk management.

d) To verify the effectiveness of risk management, the Internal Audit Department monitors all Hanwa business sites and group companies in Japan based on a pre-determined auditing plan. Internal audit reports are submitted directly to the Managing Directors Committee and the company president. The Overseas Administrative Department and the Internal Audit Department monitor overseas group companies and other overseas business sites. All Hanwa directors receive a written audit report every month. In addition, the Board of Directors receive reports on the status of overseas operations twice a year.

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

5. Systems to ensure proper operations in the corporate group
a) The Affiliated Enterprises Department monitors business operations at subsidiaries in Japan, providing support for the proper execution of business operations. The department also conducts oversight of these operations. The Overseas Administrative Department is responsible for similar support and management activities concerning overseas subsidiaries and other operations outside Japan.
b) Compliance, risk management and other systems apply to operations across the entire Hanwa Group. Committees and other supervisory units provide guidance and education concerning the use of these systems.
c) The Group Company Corporate Auditors Conference holds meetings as necessary. This conference is made up of Hanwa's full-time corporate auditors, the corporate auditors of subsidiaries and affiliates, the Affiliated Enterprises Department and other departments. The meetings provide for exchanges of informations involving audits of Hanwa and group companies to provide for the sharing of informations.

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

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

Board of Directors, the Managing Directors Committee and other important meetings with regard to the execution of business operations and important decisions.

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

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

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

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

Hanwa has disclosure regulations and a Disclosure Committee for the purpose of strengthening internal controls concerning the timely and proper disclosure of corporate information. The committee establishes criteria and basic policies for legally mandated and other disclosure activities of the Hanwa Group. The committee also oversees the disclosure system and reaches decisions concerning the importance and suitability of information to be disclosed.

The Internal Controls Committee is responsible for internal controls involving financial reports. The committee establishes and maintains group-wide systems for internal controls and business process controls, and checks the effectiveness of these systems.

Internal audits, corporate auditor audits and financial audits

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

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

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

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

August 2007

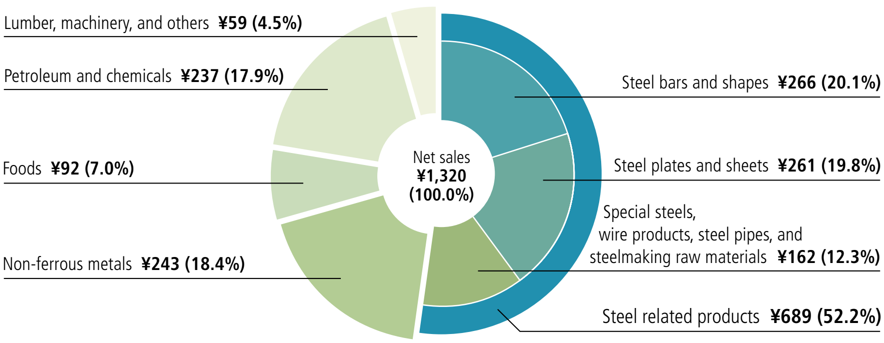
Shuji Kita
President
Hanwa Co., Ltd.

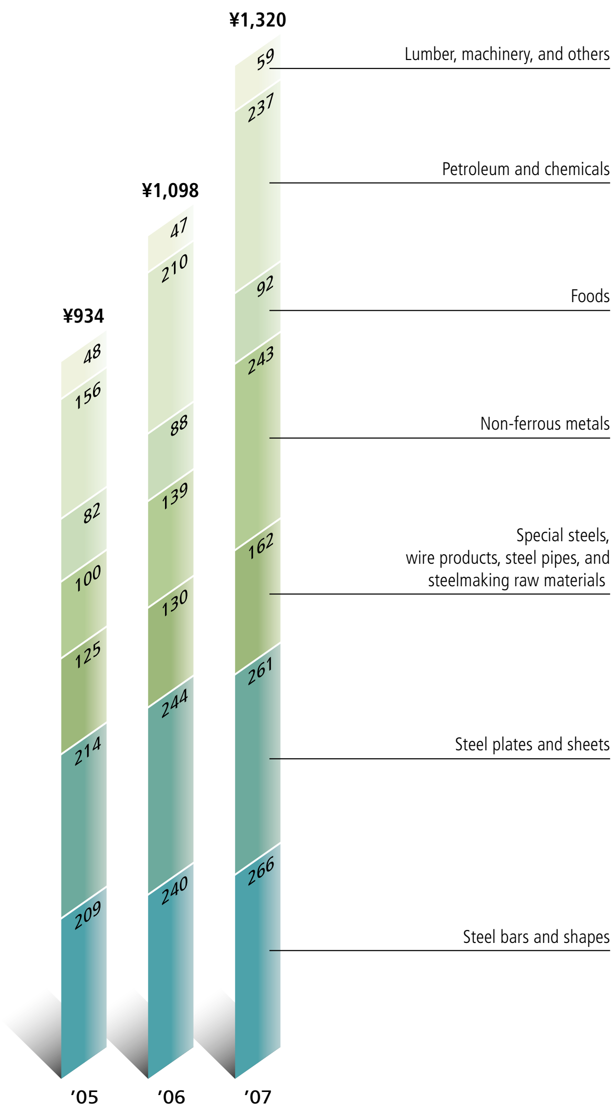
北　修爾
取締役社長
阪和興業株式会社

Review of Operations

For the year ended March 31, 2007

Net sales by Product (Billions of yen)





Steel (Domestic)

Review

In Japan, demand for steel in 2006 was strong as in the prior fiscal year due to high production levels at manufacturers of automobiles, ships, construction machinery, industrial machinery and other products. Particularly noteworthy was the substantial increase of 600,000 vehicles in domestic motor vehicle production to 11.5 million units, including knocked down sets. In the construction sector, civil engineering activity, including bridge construction, remained sluggish because of the low level of public-works expenditures. Architectural construction activity increased as private-sector capital expenditures climbed, producing growth in orders for factories, condominiums, retail stores and other facilities.

There was a substantial supply of steel as Japan's crude steel output was 117.75 million tons in fiscal 2006, the second-highest level ever. However, the supply of steel was tight mainly because of the immense demand for steel. Major sources of demand were export markets, manufacturers in Japan and large architectural construction projects in Japan.

Hanwa's domestic steel business achieved growth in sales volume and monetary sales because of strong demand and measures to reinforce skills in project operations and consulting-based sales activities. Earnings, however, declined slightly for a number of reasons. For steel used to construct buildings, there was an increase in direct purchases from steelmakers due to the growing number of large-scale construction projects in Japan. The result was a decline in commission rates. For steel sheets, there was growth in high volume, centralized purchasing and the supply of materials to outsourcers. These trends limited the increase in prices of steel sheets and caused a change in the stance of steelmakers. They raised emphasis on long term contract. As a result, it became more difficult for Hanwa to purchase steel products for in-the-home sales.

Outlook
In fiscal 2007, steel demand in Japan is likely to stay high in the manufacturing and construction industries. Because of this, the supply of domestic steel will probably remain tight. In addition, on a global scale, excess steel output in China will probably be absorbed by a combination of steady U.S. economic expansion and explosive growth in demand in the BRICs countries and resource-rich countries. This outlook indicates that the supply and demand for steel will remain balanced during fiscal 2007. As a result, the cost of both steel raw materials and steel products will probably continue to climb.

In Japan, the spread between market prices and prices negotiated directly between steelmakers and large-scale users is narrowing. One cause is the tendency of Japanese general constructors to accept orders at low prices. Another cause is the consistently low level of prices for steel products sold directly to large-scale users as well as unit prices for steel sold to outsourcers. This situation is making it more difficult to raise sales prices to offset the higher cost of steel, thus limiting increases in prices. In addition, Hanwa believes that it will become increasingly difficult to purchase steel products for in-the-house sales. Due to these trends, Hanwa foresees an extremely challenging environment for steel transactions other than those involving intermediary services for long-term contract to major manufacturers and other large-scale projects deals.

In response, Hanwa plans to correspond to demands in niche markets. One plan includes upgrading various capabilities, including storage, distribution, processing and e-commerce. And the other plan includes through initiatives that include training personnel who can conduct proposal-driven sales. Through these plans Hanwa will reinforce its sales activities.

Steel (Overseas)

Review
Global demand for steel was extremely strong throughout the fiscal year and prices were consistently high. In 2006, China's crude steel production increased about 20% to 418 million tons and its exports of steel materials and products more than doubled to 43.01 million tons. Despite the rapid growth in the supply of steel, there was sufficient global demand to keep steel markets healthy throughout the year. In Japan, steel exports increased about 8% to 35.18 million tons and imports decreased 4.9% to 8.02 million tons.

The massive volume of construction projects in the Middle East is a major reason for the strong demand for steel. Orders for steel used at these projects played a big part in raising international prices for hot rolled steel sheets, mild steel plates, and mild steel bars and shapes. Above all global production of electrical furnace steel makers is unable to keep up with demand, resulting in a sharp increase in the price of scrap steel in the first quarter of 2007.

At Hanwa's overseas steel operations, there was a 39.7% increase in the volume and a 31.5% increase in monetary steel sales.

There were several significant events during the fiscal year. Hanwa's Dubai office opened in April 2006. In southern China, operations started in July 2006 at Hanwa Steel Service (Dongguan) Co., Ltd. And in Thailand, Hanwa Thailand Co., Ltd. celebrated its 30th anniversary in September 2006.

Outlook
Demand for steel remains strong worldwide. Due to the favorable market conditions, all steel makers are forecasting very high production volumes and earnings. In China, for example, an industry association predicts that crude steel output will rise to 450 million to 460 million tons in 2007. Moreover, there are other estimates of 490 million tons. In Japan, steel production is expected to remain high in 2007, with crude steel output down only 2.0% and export volume down 3.4%. Blast furnaces steel makers are also expecting to see the highest level of earnings continue.

Hanwa expects its steel operations to generally reflect these industry-wide trends in fiscal 2007. Plans thus call for a small decline in the volume of steel sold and a small increase in monetary sales.

There will be a number of new initiatives in fiscal 2007. In China, operations will begin at a coil center in Shanghai that specializes in stainless steel. This coil center has several growth-oriented goals: supplying more steel for flat-panel TVs and other relatively new products; increasing sales of steel for automotive applications in China and other emerging markets; handling a larger lineup of steel bars and mild steel plates; and increasing offshore transactions. China will remain the core market. At the same time, Hanwa will step up activities to increase its presence in the steel markets of India, the Middle East, the ASEAN, North America and Europe.

Non-Ferrous Metals & Metal Alloys

Review

Non-ferrous metals prices on the LME began climbing in 2005, eventually taking the prices of copper and aluminum to record highs in May 2006. Next, concerns about limited supplies of nickel, zinc, lead and tin relative to demand caused the prices of these metals climb even more. The price of copper declined until early in 2007 due to excess supplies, but then started climbing again following the Chinese Lunar New Year. Metal price volatility was exacerbated by investment funds that reacted quickly to shifts in supply-demand dynamics as global economic growth continued.

Projects are under way to increase the supply of non-ferrous metals by developing mines and building smelters. But these projects will require considerable time to complete. As a result, although there will be differences among each type of metal, supplies of non-ferrous metals will probably remain tight until at least the end of 2007. Prices of ferroalloy rebounded and continued to climb in part because of stricter environmental and export regulations in China.

By taking the actions outlined below, the non-ferrous metals & metal alloys business worked on increasing sales to current customers, establishing relationships with new customers and responding accurately to market trends. Performance also benefited from higher market prices for metals. The result was a substantial increase of 79% in sales to ¥237.4 billion.

In the recycling sector, Hanwa continued to pursue a value-added strategy by increasing capacity at the company's aluminum processing facilities. Regarding copper, sales of low-grade copper materials (covered by the Basel Convention) contributed to the year's performance, but this business has performed poorly since the beginning of 2007 as market prices dropped and supplies of these materials declined. Regarding stainless steel and specialty steel scrap, performance was strong due to the high production volume of stainless steel and specialty steel. In particular, Hanwa established sales channels in Asia by starting stainless steel scrap transactions with customers in China, South Korea and India.

In the primary metals business, Hanwa began working on gaining access to new sources of nickel ore and pig iron in response to the shortage of nickel. For steel alloys, Hanwa continued to strengthen sales activities targeting the blast furnace and specialty steel sectors. In June 2006, Hanwa acquired additional exclusive rights to sell Samancor Ltd. low-carbon ferrochrome in Japan, enabling this business to further contribute to sales and earnings. There was also an increase in sales of siliconmanganese produced in Kazakhstan, a move taken to reduce reliance on Chinese suppliers. To offset the shortage of materials used to make solar cells, Hanwa further expanded the outsourced processing of silicon wafers. In addition, high-purity silicon metal made in China was used to make solar cells, making a contribution to sales and earnings.

Outlook

There are many projects worldwide to increase the supply of non-ferrous metals, develop sources of substitute raw materials and shift to other materials. However, growing demand in the BRICs and other countries means that supply will probably not match demand until some time in 2008. In 2007, insufficient supplies of non-ferrous metals and inflows of capital from funds are likely to keep prices high and volatile. But since non-ferrous metals prices are so high, shifts in the investment stances of funds can easily trigger a rapid drop in prices.

The non-ferrous metals and metal alloys business is working closely with Hanwa's overseas offices to increase the volume of international metals trading. Hanwa is aiming for growth not only in China and the ASEAN, but also in Russia, Kazakhstan, South Africa, Brazil and India. In addition, Hanwa is considering opening more overseas offices to support non-ferrous metals operations.

Regarding aluminum, copper, stainless steel and specialty metals recycling operations in Japan, one goal is the establishment of an efficient framework for collecting materials. Other themes are utilizing Hanwa's own processing facilities and working more closely with customers. Hanwa aims to offer distinctive products that are not vulnerable to market volatility and sell more products with considerable added value. Another goal is rebuilding distribution channels in India and other regions of Asia. For specialty metal scrap, plans call for increasing sales primarily in the main markets of Europe and North America.

In the primary metal resources business, Hanwa will diversify sources of stainless steel raw materials like nickel ore and pig iron, as well as expand its processing operations. Regarding the resumption of the Indonesian tin ingot business, Hanwa plans to expand the scope of sales activities and increase the volume of products handled. For steel alloys, Hanwa will continue to work on increasing sales to manufacturers of blast furnaces, specialty steel and electric furnaces. Another priority is raising sales of Samancor low-carbon ferrochrome to customers in Japan and China. For silicon metal, Hanwa is concentrating on high-purity products. In the solar cell business, Hanwa is strengthening relationships with companies that perform silicon wafer processing on an outsourcing basis.

These initiatives demonstrate how the non-ferrous metals & metal alloys business is taking numerous actions to expand operations in Japan and other countries. In addition, Hanwa is developing new businesses and expanding activities associated with non-ferrous metal operations. Supporting these actions are timely investments and additions to the non-ferrous metals workforce. All these actions are aimed at increasing trading volume and adding more value to non-ferrous metal products.

Food Products

Review
Sales increased 5.4% to ¥94.5 billion, with growth backed mainly by higher trading volumes of red fish, halibut, sole, flounder and attka mackerel. Exports of marine products to China from countries other than Japan made a significant contribution to sales growth. In the shrimp, salmon and crab category, the food business ended the decline in sales by increasing trading volume in monetary terms. Processed food products rose to 28% of sales as Hanwa continued to make progress in shifting emphasis from plain fish to processed products. However, there was a sharp drop in the price of mackerel imported from Norway, a major product at Hanwa, because Japan recorded its largest catch of mackerel in 35 years. This had a negative impact on earnings for the entire food business.

Outlook
The new fiscal year began amid a continuation of strong demand for marine products, particularly in Europe, the United States and Russia. But in Japan, prices of imported seafood raw materials are climbing even as prices of many seafood products continue to decline. Regarding imports to Japan of fish and bulk seafood, Japan is increasingly losing its global competitive edge. In response, Hanwa plans to shift its operations to value-added product chiefly produced in China and Vietnam. One major goal is establishing channels to sell in Europe and North America the products of a Chinese food processing company invested in the previous fiscal year. In the United States, the recently established shrimp sales company is performing well. The next stage will be expanding the lineup beyond shrimp and adding more value to its products. Another goal involves marine products that are plentiful in Japan, such as mackerel, pikes mackerel and Hokkaido salmon. Hanwa plans to increase exports of these fish to China, Europe and Africa for use as ingredients. To increase sales in Japan, the main goal is to build sound relationships with customers as a smaller number of processors and sales companies dominate the domestic marine products market. Regarding overseas suppliers, Hanwa will work with carefully selected partners in order to remain competitive as a company that offers significant benefits for customers. Although the marine products market environment is challenging and the outlook is uncertain, Hanwa is determined to improve sales and earnings in the food products business by taking actions that are bold yet prudent.

Petroleum and Chemicals

Review
Crude oil prices eased temporarily due to warm winter temperatures in many parts of the world. Prices remain high, however, because of persistent geopolitical risks. Fuel demands are declining as end users switch to less expensive energy sources and take other actions to lower fuel costs. In response, Hanwa concentrated on building ties with new customers to enlarge its customer base. The combination of aggressive sales activities and higher unit prices resulted in a big increase in petroleum sales. Strong sales of bunker oil in Asia also continued.

Sales of chemicals included contributions from growth in general-purpose resin imports and offshore trading and higher sales of miscellaneous household goods to large retailers. In paper products, export sales to China increased for protective interleaving paper for steel sheet surfaces and used paper exports continued to grow, mainly to Vietnam.

Outlook
The price of crude oil will probably remain high for some time, resulting in a continuing decline in demand for petroleum products in Japan. To offset this decline, Hanwa plans to capture a larger share of petroleum purchases by current customers while reinforcing activities to develop ties with new customers. In Asia, where demand for petroleum products continues to climb, Hanwa plans to increase sales of bunker oil and strengthen its export operations. To offer customers ways to lower their environmental impact, Hanwa plans to supply alternative fuels and provide ideas for systems that conserve energy.

In the chemicals sector, plans call for increasing imports and offshore trading of resins and focusing even more on raising sales of miscellaneous household goods. For paper products, the goal is raising exports of used paper, mainly to Vietnam.

Lumber

Review
A big increase in the trading volume of Russian forest products was a major highlight of the past fiscal year. Performance was also supported by growth in sales of forest products imported from North Europe, China and Chile. However, imports of U.S. and Canadian lumber remained lackluster as coastal lumber mills in Canada became less competitive. There was continued growth in direct trading with large Japanese makers of pre-cut beams. Trading with home centers also growing. Outside Japan, there was only minimal growth in exports to the United States because of poor market conditions. However, exports to China increased, mainly in association with sales directly to end users. Shipments of sample products to the Middle East may lead to significant sales of forest products in the coming years.

Regarding imported plywood, the volume of imports peaked in the fall of 2006. Since then, the market has been generally soft with relatively low prices. Considerable time will be needed for companies to reduce inventories to suitable levels.

Outlook
Hanwa plans to increase sales in Japan of lumber from Romania and Russia with the goal of increasing sales to end users. Another goal is maintaining a consistent level of trading volume by selling both logs and raw materials. Although the U.S. forest products market will probably not recover for some time, the lumber business plans to establish more sales routes and build a framework for increasing sales. For imported plywood, the goal is to increase imports from Malaysia. Plans also include starting sales of special grades of plywood and of forest products made in Japan. In addition, the lumber department hopes to establish a base to raise sales in China and the Middle East.

Machinery

Review
Leisure facilities: Hanwa upgraded its internally developed indoor family entertainment facilities and supplied these attractions to 12 locations in Japan. Another highlight of the year was the receipt of the first contract for a swimming pool renovation project using a plan created by Hanwa.
Industrial machinery: During the fiscal year, Hanwa supplied two crab cranes to steelmakers and a plasma cutting machine, band sawing machine and press machine to a steel processor. Hanwa supplied a dust collection system for a refuse treatment facility, a water treatment system and other types of environmental equipment. Sales also include the export of marine engines and the import to Japan of steel processing equipment from Italy.

Outlook
Leisure facilities: In Japan, competition in this market is declining as companies exit this business. But the long-term slump in demand for large outdoor entertainment attractions shows no sign of ending. Hanwa will concentrate on the development and sale of indoor amusement equipment for families and the business of creating indoor amusement facilities. In addition, sales activities will target swimming pool renovations, a market sector that is currently growing in Japan. Hanwa is also seeking opportunities in China, the Middle East and other overseas markets.
Industrial machinery: Backed by strong earnings, companies in the steel, automobile and consumer electronics industries are making substantial capital expenditures. This is creating opportunities for Hanwa to increase sales of cranes and steel fabrication equipment. Hanwa also plans to increase overseas sales. One more goal is taking on the challenge of raising sales of production line equipment that includes the provision of engineering support.

Our Ethical Principles

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

Corporate Creed

Confidence

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

Honesty

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

Originality

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

Cooperation

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

Contribution

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

Corporate Policy

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

Corporate Ethical Standards

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

1. Compliance with regulations and social rules

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

2. Fair corporate activities

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

3. Contribution to the industry society

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

4. Active information disclosure

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

5. Consideration for environment

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

6. Global harmonization

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

7. Establishment of free and vigorous work environment

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

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

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

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

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

10. Prevention of recurrence of misconducts and appropriate information disclosure

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

Corporate ethical standards of behavior

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

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

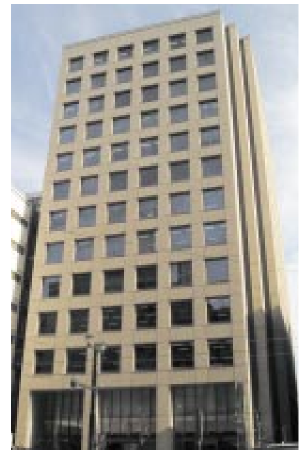
Topics

Opening new branch offices in Niigata and Hiroshima

On February 1, 2007 Hanwa opened its branch offices in Niigata and Hiroshima.

The business activities in these areas have been carried out by Distributor Sales Departments in Tokyo HQ and Osaka HQ. Hanwa will pay at most efforts to answer every customer's requirements with full use of these offices and to contribute to the societies' economy.

Niigata office



Hiroshima office

Removal of CHANG FU STAINLESS STEEL CENTER (SUZHOU) CO.,LTD.

Hanwa's affiliated company, Chang Fu Stainless Steel Center (Suzhou) Co., Ltd., took place its new factory ground breaking ceremony on January 26, 2007. This is to cope with the increasing demand in East China area.

By this removal new plant site will become more than double, from 31,856m^2 to 66,667m^2.

The current equipments will be removed to the new plant and more over 2 units of large-slitter machine, 1 unit of large-leveler machine and 1 unit of mini-leveler machine will be additionally installed.

New plant site is very close to the current plant site and this removal will be finished in this year.

Hanwa Steel Service Ltd. was awarded Zero-accident

Hanwa's fully subsidiary, Hanwa Steel Service Ltd., received a certificate of commendation from Japan Industrial Safety & Health Association (JISHA).

This is for Zero-accident award for non-shutdown accident operation for 350 working days.

Hanwa Steel Service Ltd. has been operating slitter and leveler processing since its establishment in 2003.

Blanking press processing has additionally introduced and 2 shifts operation system was adopted since last year.

As this situation in-plant distribution also became busy to 24 hours operation.

Though daily operation is very busy, all the management and staff pay special attention and efforts to secure the safety to extend vastly this non-shutdown accident record.

Management Discussion and Analysis

Economic overview

Despite there were number of instability factors in international commodity market such as crude oil, non-ferrous metals and scrap metals and worry of slowdown of the U.S. economy, the global economy generally expanded during the fiscal year ended on March 31, 2007. In Japan, the economic impact of costly crude oil and a shift in government financial policies made the outlook uncertain. However, Japan's economy remained healthy throughout the fiscal year due to strength in capital expenditures, exports and other sectors.

Earnings

In this environment, Hanwa achieved 20.3% growth in consolidated net sales to ¥1,320.0 billion. Growth was mainly attributable to higher prices for steel products and scrap metal and to aggressive sales activities for non-ferrous metals and other products. Steel earnings were lower mainly because of the considerable labor needed to convince customers to accept higher prices to offset the higher cost of purchasing steel products. However, this was offset by growth in non-ferrous metal earnings. As a result, consolidated operating income increased 6.0% to ¥20.8 billion and net income increased 8.8% to ¥11.4 billion.

Sales by Business Segment

Steel: Manufacturers of electrical machinery, automobiles, industrial machinery, ships and many other products performed well in Japan and other countries due to strong external demand in Europe, North America, China, Southeast Asia and other regions of the world. In Japan, there was a recovery in private-sector architectural construction demand as owners started projects that had been delayed by the 2006 scandal concerning fraudulent earthquake-resistant designs. An increase in redevelopment projects also contributed to higher steel demand in Japan. The result was a 12.2% increase in sales to ¥689.1 billion.

Non-Ferrous Metals: Prices of non-ferrous metals on international markets were highly volatile due to the activities of funds and other sources of speculative investments. Overall, prices generally remained at record highs throughout the fiscal year. Hanwa's sales benefited from these high prices along with growth in the trading volume of chrome and nickel products, silicon wafers for solar cells, and scrap metals such as stainless steel and aluminum. The result was a 74.6% increase in sales to ¥242.9 billion.

Foods: As global demand for marine products increases, prices for key products like farm-raised shrimp remained consistently high in worldwide. These trends kept marine product prices high in Japan, too. In addition, Hanwa concentrated on increasing sales of processed food products in China and other markets. The result was a 4.9% increase in sales to ¥91.9 billion.

Petroleum and Chemicals: The price of crude oil stayed high during the fiscal year. The main reasons were very strong demand in China and other BRIC nations and the participation of investment funds in crude oil markets. During the fiscal year, Hanwa focused on increasing sales of bunker oil and raising the trading volume of gasoline. The result was a 12.9% increase in sales to ¥237.3 billion.

Other businesses: Major factors affecting performance were growth in sales of Russian forest products and an upturn in plywood prices in Japan caused by a lower supply of raw lumber. The result was a 25.5% increase in sales to ¥58.5 billion.

Cash Flows

Net cash used in operating activities was ¥36.1 billion compared with a positive cash flow of ¥22.2 billion one year earlier. The main reason was a net increase of ¥47.5 billion in trade receivables caused by growth in sales as Hanwa conducted aggressive sales activities during the fiscal year.

Net cash used in investing activities decreased ¥8.1 billion to ¥5.9 billion. The main reasons were a decline in additions to property and equipment from the prior fiscal year and proceeds from the sale of investment securities.

Net cash provided by financing activities was ¥34.3 billion compared with a negative cash flow of ¥7.4 billion one year earlier. The positive cash flow was mainly due to proceeds from short-term loans and commercial paper in order to meet the substantial demand for working capital.

Outlook

Establishing an outlook for the global economy requires making assumptions concerning potential changes in economic growth rates in the United States and China. However, the global economy will probably continue to expand because of continuing strength in the Middle East and countries with emerging economies. In Japan, many factors make the outlook uncertain, notably the possibility of higher long term interest rates, the direction of foreign exchange rates, and trends in prices of crude oil and other commodities. Despite this uncertainty, Japan's economy is likely to remain generally healthy mainly due to external demand.

Five-Year Summary

For the years ended March 31

	Millions of yen, except number of employees					Thousands of U.S. dollars
	2007	2006	2005	2004	2003	**2007**
For the year:						
Net sales	**¥ 1,320,022**	¥ 1,097,707	¥ 933,956	¥ 751,964	¥ 682,964	**$11,181,889**
Operating income	**20,865**	19,690	22,091	12,666	10,257	**176,747**
Net income	**11,423**	10,504	13,704	5,662	5,907	**96,764**
Net cash provided by (used in) operating activities	**(36,192)**	22,299	(13,341)	(6,850)	3,269	**(306,582)**
Net cash provided by (used in) investing activities	**(5,956)**	(14,079)	(731)	(1,004)	836	**(50,453)**
Net cash provided by (used in) financing activities	**34,325**	(7,497)	23,523	(10,873)	(10,115)	**290,767**
At year-end:						
Cash and cash equivalents	**¥ 10,229**	¥ 18,986	¥ 17,658	¥ 8,390	¥ 27,808	**$ 86,650**
Total assets	**476,179**	413,020	376,521	293,528	281,557	**4,033,706**
Total net assets	**98,254**	86,954	73,574	58,293	53,251	**832,308**
Number of employees	**1,637**	1,519	1,424	1,285	1,239	

	Yen					U.S. dollars
	2007	2006	2005	2004	2003	**2007**
Per share data:						
Net income	**¥ 54.03**	¥ 48.96	¥ 64.03	¥ 26.43	¥ 27.91	**$ 0.458**
Cash dividends	**12.00**	10.00	9.00	6.00	5.00	**0.102**
Net assets	**461.21**	406.68	343.82	272.67	249.30	**3.907**

	%				
	2007	2006	2005	2004	2003
Key financial ratios:					
Return on assets	**2.6**	2.7	4.1	2.0	2.1
Return on equity	**12.4**	13.2	21.0	10.2	11.6
Net debt/equity ratio	**170**	140	170	180	180

Note: 1. The U.S. dollar amounts represent translations, for convenience only, of yen amounts at the rate of ¥118.05 = $1.00.
2. Net debt/equity ratio = Net interest-bearing debt / equity.
Net interest-bearing debt = Interest-bearing debt – cash.
3. The cash dividends per share for the year ended March 31, 2007 include a ¥2 ($0.017) commemorative dividend in celebration of the 60th anniversary of the Company's establishment.

Financial Section

Contents

HANWA CO., LTD. AND CONSOLIDATED SUBSIDIARIES

Consolidated Balance Sheets

As at March 31, 2007 and 2006

Assets	Millions of yen 2007	Millions of yen 2006	Thousands of U.S. dollars (Note 1) 2007	Thousands of U.S. dollars (Note 1) 2006
Current assets:				
Cash and cash equivalents	**¥ 10,229**	¥ 18,986	**$ 86,650**	$ 160,830
Receivables:				
Trade notes and accounts:				
Unconsolidated subsidiaries and affiliates	**7,168**	4,941	**60,720**	41,855
Other	**252,204**	203,285	**2,136,417**	1,722,025
Loans:				
Unconsolidated subsidiaries and affiliates	**451**	2,555	**3,820**	21,643
Other	**177**	7	**1,499**	59
Allowance for doubtful receivables	**(911)**	(737)	**(7,717)**	(6,243)
Inventories	**88,221**	76,054	**747,319**	644,252
Deferred tax assets - current (Note 8)	**1,097**	1,355	**9,293**	11,478
Other current assets (Note 5)	**23,636**	20,900	**200,220**	177,044
Total current assets	**382,272**	327,346	**3,238,221**	2,772,943
Investments and noncurrent receivables:				
Investment securities (Notes 3 and 5):				
Unconsolidated subsidiaries and affiliates	**1,402**	1,279	**11,876**	10,834
Other	**36,765**	32,527	**311,436**	275,536
Loans receivable:				
Unconsolidated subsidiaries and affiliates	**—**	30	**—**	254
Other	**327**	408	**2,770**	3,456
Other investments and noncurrent receivables	**14,619**	12,657	**123,837**	107,217
Allowance for doubtful receivables	**(749)**	(1,118)	**(6,345)**	(9,470)
Total investments and noncurrent receivables	**52,364**	45,783	**443,574**	387,827
Property and equipment (Note 5)**:**				
Land (Note 9)	**24,453**	24,451	**207,141**	207,124
Buildings and structures	**21,408**	20,689	**181,347**	175,256
Other	**11,575**	8,624	**98,052**	73,054
Accumulated depreciation	**(16,605)**	(14,564)	**(140,661)**	(123,371)
Total property and equipment	**40,831**	39,200	**345,879**	332,063
Other assets:				
Deferred tax assets – noncurrent (Note 8)	**10**	42	**85**	356
Intangibles and other assets (Note 5)	**702**	649	**5,947**	5,498
Total other assets	**712**	691	**6,032**	5,854
Total	**¥ 476,179**	¥ 413,020	**$ 4,033,706**	$ 3,498,687

See accompanying Notes to Consolidated Financial Statements.

Liabilities and Net Assets	Millions of yen 2007	Millions of yen 2006	Thousands of U.S. dollars (Note 1) 2007	Thousands of U.S. dollars (Note 1) 2006
Current liabilities:				
Short-term loans payable (Note 6)	**¥ 43,092**	¥ 24,595	**$ 365,032**	$ 208,344
Commercial paper (Note 6)	**17,500**	—	**148,242**	—
Long-term debt due within one year (Note 6)	**50**	26,450	**423**	224,057
Trade notes and accounts payable:				
Unconsolidated subsidiaries and affiliates	**647**	788	**5,481**	6,675
Other	**159,782**	139,290	**1,353,511**	1,179,924
Accrued bonuses to employees	**1,694**	1,666	**14,350**	14,113
Income taxes payable	**4,051**	3,709	**34,316**	31,419
Other current liabilities	**24,280**	30,826	**205,676**	261,127
Total current liabilities	**251,096**	227,324	**2,127,031**	1,925,659
Noncurrent liabilities:				
Long-term debt due after one year (Note 6)	**111,950**	84,900	**948,327**	719,187
Employees' severance and retirement benefits (Note 7)	**8**	103	**68**	873
Deferred tax liabilities – noncurrent (Note 8)	**10,978**	9,778	**92,994**	82,829
Other noncurrent liabilities	**3,893**	3,961	**32,978**	33,554
Total noncurrent liabilities	**126,829**	98,742	**1,074,367**	836,443
Contingent liabilities (Note 12)				
Net assets (Note 9)				
Shareholders' equity:				
Common stock,				
Authorized: 570,000,000 shares				
Issued: 211,663,200 shares	**45,651**	45,651	**386,709**	386,709
Capital surplus	**3**	3	**25**	25
Retained earnings	**40,661**	31,288	**344,439**	265,040
Treasury stock, at cost: 291,554 shares (206,306 in 2006)	**(109)**	(67)	**(923)**	(568)
Total shareholders' equity	**86,206**	76,875	**730,250**	651,206
Valuation and translation adjustments:				
Unrealized gains on securities, net of taxes	**11,406**	10,446	**96,620**	88,488
Unrealized gains on hedging derivatives, net of taxes	**838**	—	**7,098**	—
Land revaluation difference, net of taxes	**(17)**	(17)	**(144)**	(144)
Foreign currency translation adjustments	**(947)**	(1,159)	**(8,022)**	(9,818)
Total valuation and translation adjustments	**11,280**	9,270	**95,552**	78,526
Minority interests	**768**	809	**6,506**	6,853
Total net assets	**98,254**	86,954	**832,308**	736,585
Total	**¥ 476,179**	¥ 413,020	**$ 4,033,706**	$ 3,498,687

Consolidated Statements of Income

For the years ended March 31, 2007 and 2006

	Millions of yen		Thousands of U.S. dollars (Note 1)	
	2007	2006	**2007**	2006
Net sales	**¥ 1,320,022**	¥ 1,097,707	**$ 11,181,889**	$ 9,298,662
Cost of sales	**1,272,532**	1,053,920	**10,779,602**	8,927,743
Gross profit	**47,490**	43,787	**402,287**	370,919
Selling, general and administrative expenses	**26,625**	24,097	**225,540**	204,125
Operating income	**20,865**	19,690	**176,747**	166,794
Other income (expenses):				
Interest and dividend income	**1,633**	1,826	**13,833**	15,468
Interest expense	**(3,233)**	(2,542)	**(27,386)**	(21,533)
Foreign exchange gain	**663**	23	**5,616**	195
Loss on impairment of long-lived assets (Note 14)	**—**	(451)	**—**	(3,821)
Other, net	**(758)**	(725)	**(6,421)**	(6,142)
Income before income taxes and minority interests	**19,170**	17,821	**162,389**	150,961
Income taxes (Note 8)**:**				
Current	**7,399**	6,530	**62,677**	55,315
Deferred	**270**	736	**2,287**	6,235
	7,669	7,266	**64,964**	61,550
Minority interests in income of consolidated subsidiaries	**(78)**	(51)	**(661)**	(432)
Net income	**¥ 11,423**	¥ 10,504	**$ 96,764**	$ 88,979

	Yen		U.S. dollars (Note 1)	
	2007	2006	**2007**	2006
Net income per share	**¥ 54.03**	¥ 48.96	**$ 0.458**	$ 0.415
Cash dividends per share	**12.00**	10.00	**0.102**	0.085

See accompanying Notes to Consolidated Financial Statements.

Consolidated Statements of Changes in Net Assets

For the years ended March 31, 2007 and 2006

	Thousands	Millions of yen			
	Number of shares of common stock	Common stock	Capital surplus	Retained earnings	Treasury stock
Balance at March 31, 2005	211,663	¥ 45,651	¥ 1	¥ 23,912	¥ (49)
Net income	—	—	—	10,504	—
Cash dividends paid	—	—	—	(2,961)	—
Bonuses to directors	—	—	—	(160)	—
Staff and workers' bonuses and welfare fund	—	—	—	(10)	—
Purchases of treasury stock	—	—	—	—	(21)
Retirement of treasury stock	—	—	2	—	3
Other changes	—	—	—	3	—
Balance at March 31, 2006	**211,663**	**45,651**	**3**	**31,288**	**(67)**
Net income	**—**	**—**	**—**	**11,423**	**—**
Cash dividends paid	**—**	**—**	**—**	**(2,114)**	**—**
Bonuses to directors	**—**	**—**	**—**	**(150)**	**—**
Staff and workers' bonuses and welfare fund	**—**	**—**	**—**	**(1)**	**—**
Increase resulting from increase in consolidated subsidiaries	**—**	**—**	**—**	**215**	**—**
Purchases of treasury stock	**—**	**—**	**—**	**—**	**(43)**
Retirement of treasury stock	**—**	**—**	**0**	**—**	**1**
Other changes	**—**	**—**	**—**	**—**	**—**
Balance at March 31, 2007	**211,663**	**¥ 45,651**	**¥ 3**	**¥ 40,661**	**¥ (109)**

	Millions of yen					
	Unrealized gains on securities, net of taxes	Unrealized gains on hedging derivatives, net of taxes	Land revaluation difference, net of taxes	Foreign currency translation adjustments	Minority interests	Total
Balance at March 31, 2005	¥ 3,871	¥ —	¥ 1,653	¥ (2,164)	¥ 698	¥ 73,573
Net income	—	—	—	—	—	10,504
Cash dividends paid	—	—	—	—	—	(2,961)
Bonuses to directors	—	—	—	—	—	(160)
Staff and workers' bonuses and welfare fund	—	—	—	—	—	(10)
Purchases of treasury stock	—	—	—	—	—	(21)
Retirement of treasury stock	—	—	—	—	—	5
Other changes	6,575	—	(1,670)	1,005	111	6,024
Balance at March 31, 2006	**10,446**	**—**	**(17)**	**(1,159)**	**809**	**86,954**
Net income	**—**	**—**	**—**	**—**	**—**	**11,423**
Cash dividends paid	**—**	**—**	**—**	**—**	**—**	**(2,114)**
Bonuses to directors	**—**	**—**	**—**	**—**	**—**	**(150)**
Staff and workers' bonuses and welfare fund	**—**	**—**	**—**	**—**	**—**	**(1)**
Increase resulting from increase in consolidated subsidiaries	**—**	**—**	**—**	**—**	**—**	**215**
Purchases of treasury stock	**—**	**—**	**—**	**—**	**—**	**(43)**
Retirement of treasury stock	**—**	**—**	**—**	**—**	**—**	**1**
Other changes	**960**	**838**	**—**	**212**	**(41)**	**1,969**
Balance at March 31, 2007	**¥ 11,406**	**¥ 838**	**¥ (17)**	**¥ (947)**	**¥ 768**	**¥ 98,254**

See accompanying Notes to Consolidated Financial Statements.

	Thousands of U.S. dollars (Note1)			
	Common stock	Capital surplus	Retained earnings	Treasury stock
Balance at March 31, 2005	$ 386,709	$ 8	$ 202,558	$ (415)
Net income	—	—	88,979	—
Cash dividends paid	—	—	(25,082)	—
Bonuses to directors	—	—	(1,355)	—
Staff and workers' bonuses and welfare fund	—	—	(85)	—
Purchases of treasury stock	—	—	—	(178)
Retirement of treasury stock	—	17	—	25
Other changes	—	—	25	—
Balance at March 31, 2006	**386,709**	**25**	**265,040**	**(568)**
Net income	**—**	**—**	**96,764**	**—**
Cash dividends paid	**—**	**—**	**(17,908)**	**—**
Bonuses to directors	**—**	**—**	**(1,270)**	**—**
Staff and workers' bonuses and welfare fund	**—**	**—**	**(8)**	**—**
Increase resulting from increase in consolidated subsidiaries	**—**	**—**	**1,821**	**—**
Purchases of treasury stock	**—**	**—**	**—**	**(364)**
Retirement of treasury stock	**—**	**0**	**—**	**9**
Other changes	**—**	**—**	**—**	**—**
Balance at March 31, 2007	**$ 386,709**	**$ 25**	**$ 344,439**	**$ (923)**

	Thousands of U.S. dollars (Note1)					
	Unrealized gains on securities, net of taxes	Unrealized gains on hedging derivatives, net of taxes	Land revaluation difference, net of taxes	Foreign currency translation adjustments	Minority interests	Total
Balance at March 31, 2005	$ 32,791	$ —	$ 14,003	$ (18,331)	$ 5,913	$ 623,236
Net income	—	—	—	—	—	88,979
Cash dividends paid	—	—	—	—	—	(25,082)
Bonuses to directors	—	—	—	—	—	(1,355)
Staff and workers' bonuses and welfare fund	—	—	—	—	—	(85)
Purchases of treasury stock	—	—	—	—	—	(178)
Retirement of treasury stock	—	—	—	—	—	42
Other changes	55,697	—	(14,147)	8,513	940	51,028
Balance at March 31, 2006	**88,488**	**—**	**(144)**	**(9,818)**	**6,853**	**736,585**
Net income	**—**	**—**	**—**	**—**	**—**	**96,764**
Cash dividends paid	**—**	**—**	**—**	**—**	**—**	**(17,908)**
Bonuses to directors	**—**	**—**	**—**	**—**	**—**	**(1,270)**
Staff and workers' bonuses and welfare fund	**—**	**—**	**—**	**—**	**—**	**(8)**
Increase resulting from increase in consolidated subsidiaries	**—**	**—**	**—**	**—**	**—**	**1,821**
Purchases of treasury stock	**—**	**—**	**—**	**—**	**—**	**(364)**
Retirement of treasury stock	**—**	**—**	**—**	**—**	**—**	**9**
Other changes	**8,132**	**7,098**	**—**	**1,796**	**(347)**	**16,679**
Balance at March 31, 2007	**$ 96,620**	**$ 7,098**	**$ (144)**	**$ (8,022)**	**$ 6,506**	**$ 832,308**

See accompanying Notes to Consolidated Financial Statements.

HANWA CO., LTD. AND CONSOLIDATED SUBSIDIARIES

Consolidated Statements of Cash Flows

For the years ended March 31, 2007 and 2006

	Millions of yen		Thousands of U.S. dollars (Note 1)	
	2007	2006	**2007**	2006
Cash flows from operating activities:				
Income before income taxes	**¥ 19,170**	¥ 17,821	**$ 162,389**	$ 150,961
Adjustments to reconcile income before income taxes to net cash provided by (used in) operating activities				
Depreciation	**1,991**	1,969	**16,866**	16,679
Loss on impairment of long-lived assets	**—**	451	**—**	3,821
Decrease in allowance for doubtful receivables	**(189)**	(298)	**(1,601)**	(2,524)
Interest and dividend income	**(1,633)**	(1,826)	**(13,833)**	(15,468)
Interest expense	**3,233**	2,542	**27,387**	21,533
Increase in trade receivables	**(50,719)**	(3,185)	**(429,640)**	(26,980)
Increase in inventories	**(11,409)**	(11,779)	**(96,646)**	(99,780)
Increase in trade notes and accounts payable	**20,212**	21,239	**171,216**	179,916
Increase (decrease) in deposits received	**(7,570)**	552	**(64,126)**	4,676
Other, net	**(735)**	4,402	**(6,226)**	37,289
Subtotal	**(27,649)**	31,888	**(234,214)**	270,123
Cash flows during the year for:				
Interest and dividends received	**1,795**	1,661	**15,205**	14,070
Interest paid	**(3,237)**	(2,477)	**(27,421)**	(20,983)
Income taxes paid	**(7,101)**	(8,773)	**(60,152)**	(74,316)
Net cash provided by (used in) operating activities	**(36,192)**	22,299	**(306,582)**	188,894
Cash flows from investing activities:				
Decrease (increase) in time deposits, net	**303**	(310)	**2,567**	(2,626)
Additions to property and equipment	**(2,593)**	(7,899)	**(21,965)**	(66,912)
Proceeds from sale of property and equipment	**14**	40	**119**	339
Additions to investment securities	**(5,489)**	(5,278)	**(46,497)**	(44,710)
Proceeds from sale of investment securities	**2,778**	89	**23,532**	754
Decrease in short-term loans receivable, net	**195**	439	**1,652**	3,719
Additions to long-term loans receivable	**(21)**	(29)	**(178)**	(246)
Proceeds from long-term loans receivable	**139**	420	**1,177**	3,558
Other, net	**(1,282)**	(1,551)	**(10,860)**	(13,139)
Net cash used in investing activities	**(5,956)**	(14,079)	**(50,453)**	(119,263)
Cash flows from financing activities:				
Increase (decrease) in short-term loans payable, net	**18,359**	(26,846)	**155,519**	(227,412)
Increase in commercial paper, net	**17,500**	—	**148,242**	—
Proceeds from long-term debt	**27,100**	39,420	**229,564**	333,926
Repayments of long-term debt	**(26,450)**	(17,050)	**(224,057)**	(144,430)
Payment of cash dividends	**(2,116)**	(2,955)	**(17,925)**	(25,032)
Cash dividends paid to minority interests in consolidated subsidiaries	**(26)**	(50)	**(220)**	(424)
Other, net	**(42)**	(16)	**(356)**	(135)
Net cash provided by (used in) financing activities	**34,325**	(7,497)	**290,767**	(63,507)
Effect of exchange rate changes on cash and cash equivalents	**(943)**	605	**(7,988)**	5,125
Net increase (decrease) in cash and cash equivalents	**(8,766)**	1,328	**(74,256)**	11,249
Cash and cash equivalents at beginning of year	**18,986**	17,658	**160,830**	149,581
Increase arising from inclusion in consolidation	**9**	—	**76**	—
Cash and cash equivalents at end of year	**¥ 10,229**	¥ 18,986	**$ 86,650**	$ 160,830

See accompanying Notes to Consolidated Financial Statements.

Notes to Consolidated Financial Statements

1. Basis of presenting consolidated financial statements

The accompanying consolidated financial statements of Hanwa Co., Ltd. (the "Company") and its consolidated subsidiaries have been prepared in accordance with the provisions set forth in the Japanese 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 from International Financial Reporting Standards.

The accounts of overseas subsidiaries are based on their accounting records maintained in conformity with generally accepted accounting principles prevailing in the respective countries of domicile. The accompanying consolidated financial statements have been restructured and translated into English, with some expanded descriptions and the inclusion of consolidated statements of changes in net assets for 2006, from the consolidated financial statements of the Company prepared in accordance with Japanese GAAP and filed with the appropriate Local Finance Bureau of the Ministry of Finance as required by the Securities and Exchange Law. Some supplementary information included in the statutory Japanese language consolidated financial statements, but not required for fair presentation, is not presented in the accompanying consolidated financial statements.

The translation of the Japanese yen amounts into U.S. dollar amounts is included solely for the convenience of readers outside Japan, using the prevailing exchange rate at March 31, 2007, which was ¥118.05 to U.S.$1.00. The translations should not be construed as representations that the Japanese yen amounts have been, could have been, or could in the future be converted into U.S. dollars at this or any other rate of exchange.

2. Significant accounting policies

Consolidation — The consolidated financial statements include the accounts of the Company and its twelve (eleven in 2006) significant subsidiaries (together "the Companies"). The accounts of certain consolidated subsidiaries have been included on the basis of fiscal periods ended three months or less prior to March 31, and significant transactions after these year-ends are appropriately adjusted in consolidation.

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

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

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

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

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

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

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

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

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

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

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

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

As a result of the adoption of this accounting standard, operating income, income before income taxes and minority interests decreased by ¥154 million ($1,305 thousand) for the year ended March 31, 2007 from the amount which would have been recorded under the method applied in the previous year.

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

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

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

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

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

As the pension assets exceeded the deduction of unrecognized actuarial differences and unrecognized prior service cost from projected benefit obligation in the Company, such excess amount is included in "other investments and noncurrent receivables" in the years ended March 31, 2007 and 2006.

In the last fiscal year, the retirement benefits plan for directors and statutory auditors was abolished. Amounts for benefits that had accrued at the date of abolishment were approved at the ordinary general meeting of stockholders on June 29, 2005. Then, the estimated amounts payable to them were eliminated, and the outstanding payments were recorded as "Other noncurrent liabilities."

It is compulsorily for employees of Japanese companies to be included in the Welfare Pension Insurance Scheme operated by the government. Employers are legally required to deduct employees' welfare pension insurance contributions from their payroll and to pay them to the government together with the employers' own contributions. For companies that have established their own Employees' Pension Funds, which meets certain legal requirements, it is possible to transfer a part of their welfare pension insurance contributions (referred to as the "substitutional portion" of the government's Welfare Pension Insurance Scheme) to their own Employees' Pension Funds with the government's permission and supervision.

Based on the newly enacted Defined Benefit Corporate Pension Law, the Company decided to restructure its Employees' Pension Fund and was permitted by the Minister of Health, Labor and Welfare on September 25, 2003 to be released from the future obligation for payments for the substitutional portion of the Welfare Pension Insurance Scheme. On January 1, 2005, the Company obtained approval from the Minister of Health, Labor and Welfare with respect to application of the transfer to the Japanese government of the substitutional portion of benefit obligation for employee services provided in prior years and related pension plan assets. Pension assets for the substitutional portion maintained by the Employees' Pension Fund were transferred back to the government's scheme. The effects of the transfer are disclosed in the Note 7, Employees' severance and retirement benefits.

Reserve for loss on sale-repurchase agreement of land — In accordance with the exercise of the agreement from the Organization for Promoting Urban Development, on September 20, 2005, the entire amount of "Reserve for loss on sale-repurchase agreement of land" was reversed in the last fiscal year.

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

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

The Companies report foreign currency translation adjustments in net assets.

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

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

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

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

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

- Hedging instruments:
  - Interest rate swap agreements
  - Commodity futures contracts
- Hedged items:
  - Interest expense on borrowings
  - Inventories and commitments

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

Reclassifications — Certain prior year amounts have been reclassified to conform to the current year presentation. Also, as described in Note 2, Significant accounting policies, "Accounting standard for statement of changes in net assets," the consolidated balance sheet for 2006 was adapted to conform to the new presentation rules of 2007. Also, in lieu of the consolidated statement of shareholders' equity for the year ended March 31, 2006, which was prepared on a voluntary basis for inclusion in the 2006 consolidated financial statements, the Company prepared the consolidated statement of changes in net assets for 2006 as well as for 2007.

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

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

Accordingly, the Companies prepared the statements of changes in net assets for the year ended March 31, 2007 in accordance with the Additional New Accounting Standards. Also, the Companies voluntarily prepared the consolidated statement of changes in net assets for 2006 in accordance with the Additional New Accounting Standards. Previously, consolidated statements of stockholders' equity were prepared for the purpose of inclusion in the consolidated financial statements although such statements were not required under Japanese GAAP.

Change in accounting policy —

Accounting standard for presentation of net assets in the balance sheet

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

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

Under the New Accounting Standards, the following items are presented differently compared to the previous presentation. The net assets section includes unrealized gains (losses) on hedging derivatives, net of taxes. Under the previous presentation rules, the Companies were required to present unrealized gains (losses) on hedging derivatives in the assets or liabilities section without considering the related income tax effects. Minority interest is required to be included in the net assets section under the New Accounting Standards. Under the previous presentation rules, the Companies were required to present minority interest in the liabilities section and between the noncurrent liabilities and stockholders' equity sections.

The previously presented stockholders' equity and certain other balance sheet items for 2006 have been restated to conform to the 2007 presentation. As a result, minority interests amounting to ¥809 million ($6,853 thousand) are included in the net assets section as of March 31, 2006.

If the New Accounting Standards had not been adopted and the previous presentation method for stockholders' equity had been applied, stockholders' equity at March 31, 2007 and 2006, which comprised common stock, capital surplus, retained earnings, land revaluation difference, net unrealized holding gains on securities, foreign currency translation adjustments and treasury stock, would have been ¥96,648 million ($818,704 thousand) and ¥86,145 million ($729,733 thousand), respectively.

3. Securities

(A) The following tables summarize acquisition costs and book values (fair values) of available-for-sale securities with available fair values as of March 31, 2007 and 2006:

March 31, 2007

	Millions of yen			Thousands of U.S. dollars		
	Acquisition cost	Book value	Difference	Acquisition cost	Book value	Difference
Securities with book values exceeding acquisition costs:						
Equity securities	**¥ 11,184**	**¥ 30,341**	**¥ 19,157**	**$ 94,739**	**$ 257,018**	**$ 162,279**
Other securities:						
Equity securities	**¥ 259**	**¥ 215**	**¥ (44)**	**$ 2,194**	**$ 1,821**	**$ (373)**

March 31, 2006

	Millions of yen			Thousands of U.S. dollars		
	Acquisition cost	Book value	Difference	Acquisition cost	Book value	Difference
Securities with book values exceeding acquisition costs:						
Equity securities	¥ 6,032	¥ 23,324	¥ 17,292	$ 51,097	$ 197,577	$ 146,480
Other securities:						
Equity securities	¥ 46	¥ 36	¥ (10)	$ 390	$ 305	$ (85)

(B) The following tables summarize book values of securities whose fair values are not determinable as of March 31, 2007 and 2006:

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

	Millions of yen		Thousands of U.S. dollars	
	2007	2006	**2007**	2006
	Book value	Book value	Book value	Book value
Equity securities issued by unconsolidated subsidiaries and affiliated companies	**¥ 1,402**	¥ 1,279	**$ 11,876**	$ 10,834

(b) Available-for-sale securities

Unlisted stocks	**¥ 2,596**	¥ 2,739	**$ 21,991**	$ 23,202
Unlisted foreign stocks	**1,417**	4,229	**12,003**	35,824
Preferred fund certificate	**2,000**	2,000	**16,942**	16,942
Investment in limited partnership	**196**	199	**1,660**	1,686
Total	**¥ 6,209**	¥ 9,167	**$ 52,596**	$ 77,654

(C) Total sales of available-for-sale securities in the years ended March 31, 2007 and 2006 amounted to ¥2,778 million ($23,532 thousand) and ¥89 million ($754 thousand), which resulted in a break-even and net gains of ¥36 million ($305 thousand), respectively.

4. Derivatives

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

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

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

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

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

The following tables summarize market value information as of March 31, 2007 and 2006 for derivatives for which hedge accounting has not been applied:

March 31, 2007

Currency related

	Millions of yen			Thousands of U.S. dollars		
	Contract or notional amount	Fair value	Net recognized gains (losses)	Contract or notional amount	Fair value	Net recognized gains (losses)
Foreign exchange forward contracts:						
Selling						
U.S. dollars	¥ 9,758	¥ 9,759	¥ (1)	$ 82,660	$ 82,668	$ (8)
Other currencies	2,157	2,165	(8)	18,272	18,340	(68)
Buying						
U.S. dollars	8,819	8,839	20	74,706	74,875	169
Other currencies	4,439	4,508	69	37,602	38,187	585
Currency swap agreements:						
Japanese yen received for U.S. dollars	14,656	(943)	(943)	124,151	(7,988)	(7,988)
Total			¥ (863)			$ (7,310)

Commodity related

	Millions of yen			Thousands of U.S. dollars		
	Contract or notional amount	Fair value	Net recognized gains (losses)	Contract or notional amount	Fair value	Net recognized gains (losses)
Futures:						
Petroleum						
Selling	¥ 10,809	¥ 11,206	¥ (397)	$ 91,563	$ 94,926	$ (3,363)
Buying	5,440	5,716	276	46,082	48,420	2,338
Frozen seafoods						
Selling	—	—	—	—	—	—
Buying	1	1	0	8	8	0
Non-ferrous metals						
Selling	9,823	10,113	(290)	83,211	85,667	(2,456)
Buying	6,278	6,856	578	53,181	58,077	4,896
Commodity swaps						
Petroleum						
Selling	2,030	(60)	(60)	17,196	(508)	(508)
Buying	7,371	141	141	62,440	1,194	1,194
Total			¥ 248			$ 2,101

March 31, 2006

Currency related	Millions of yen			Thousands of U.S. dollars		
	Contract or notional amount	Fair value	Net recognized gains (losses)	Contract or notional amount	Fair value	Net recognized gains (losses)
Foreign exchange forward contracts:						
Selling						
U.S. dollars	¥ 8,984	¥ 9,105	¥ (121)	$ 76,103	$ 77,128	$ (1,025)
Other currencies	284	285	(1)	2,406	2,414	(8)
Buying						
U.S. dollars	10,283	10,506	223	87,107	88,996	1,889
Other currencies	543	555	12	4,600	4,702	102
Currency swap agreements:						
Japanese yen received for U.S. dollars	14,164	(1,303)	(1,303)	119,983	(11,038)	(11,038)
Total			¥ (1,190)			$ (10,080)

Commodity related	Millions of yen			Thousands of U.S. dollars		
	Contract or notional amount	Fair value	Net recognized gains (losses)	Contract or notional amount	Fair value	Net recognized gains (losses)
Futures:						
Petroleum						
Selling	¥ 10,766	¥ 10,730	¥ 36	$ 91,199	$ 90,894	$ 305
Buying	1,618	1,684	66	13,706	14,265	559
Frozen seafoods						
Selling	23	24	(1)	194	203	(9)
Buying	—	—	—	—	—	—
Non-ferrous metals						
Selling	5,579	5,575	4	47,260	47,226	34
Buying	1,779	1,757	(22)	15,070	14,884	(186)
Commodity swaps						
Petroleum						
Selling	2,558	(71)	(71)	21,669	(601)	(601)
Buying	13,857	89	89	117,382	754	754
Total			¥ 101			$ 856

5. Pledged assets

At March 31, 2007 and 2006, assets pledged as collateral for short-term loans payable of ¥114 million ($966 thousand) and ¥378 million ($3,202 thousand), respectively, and guarantees are as follows:

	Millions of yen		Thousands of U.S. dollars	
	2007	2006	**2007**	2006
Other current assets	**¥ 13**	¥ 10	**$ 110**	$ 85
Investment securities	**2,818**	4,548	**23,871**	38,526
Property and equipment, net of accumulated depreciation	**481**	491	**4,075**	4,159
Intangibles	**66**	64	**559**	542
Total	**¥ 3,378**	¥ 5,113	**$ 28,615**	$ 43,312

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

Weighted average interest rates applicable to short-term loans outstanding at March 31, 2007 and 2006 are 1.95% and 2.40%, respectively.

The Company has entered into a yen domestic commercial paper program. There is an outstanding balance of ¥17,500 million ($148,242 thousand) at March 31, 2007.

Long-term debt at March 31, 2007 and 2006 consisted of the following:

	Millions of yen		Thousands of U.S. dollars	
	2007	2006	**2007**	2006
Issued in 2005, 0.96% unsecured straight bonds, due 2008	**¥ 10,000**	¥ 10,000	**$ 84,710**	$ 84,710
Loans from banks with weighted average interest rates of 1.43% and 0.93% at March 31, 2007 and 2006, respectively, maturing serially through 2014	**102,000**	101,350	**864,040**	858,534
Less amounts due within one year	**50**	26,450	**423**	224,057
	¥ 111,950	¥ 84,900	**$ 948,327**	$ 719,187

The annual maturities of long-term debt outstanding at March 31, 2007, are as follows:

Years ending March 31,	Millions of yen	Thousands of U.S. dollars
2008	¥ 50	$ 423
2009	32,625	276,366
2010	23,675	200,550
2011	23,550	199,492
2012	11,200	94,875
Thereafter	20,900	177,044
Total	¥ 112,000	$ 948,750

7. Employees' severance and retirement benefits

The liabilities for severance and retirement benefits included in the liability section of the consolidated balance sheets as of March 31, 2007 and 2006 consisted of the following:

	Millions of yen		Thousands of U.S. dollars	
	2007	2006	**2007**	2006
Projected benefit obligation	**¥ 19,066**	¥ 18,532	**$ 161,508**	$ 156,984
Less fair value of pension assets	**(16,915)**	(14,739)	**(143,287)**	(124,854)
Unrecognized actuarial differences	**(3,996)**	(4,192)	**(33,850)**	(35,510)
Unrecognized prior service costs	**(949)**	(1,030)	**(8,039)**	(8,725)
Prepaid pension costs	**2,802**	1,532	**23,736**	12,978
Liability for severance and retirement benefits	**¥ 8**	¥ 103	**$ 68**	$ 873

Included in the consolidated statements of income for the years ended March 31, 2007 and 2006 are severance and retirement benefit expenses that comprised the following:

	Millions of yen		Thousands of U.S. dollars	
	2007	2006	**2007**	2006
Service costs - benefits earned during the year	**¥ 633**	¥ 523	**$ 5,362**	$ 4,430
Interest costs on projected benefit obligation	**366**	319	**3,100**	2,702
Expected return on plan assets	**(439)**	(299)	**(3,719)**	(2,533)
Amortization of actuarial differences	**424**	475	**3,592**	4,024
Amortization of prior service costs	**81**	81	**686**	686
Additional retirement benefits	**20**	37	**170**	314
Severance and retirement benefit expenses	**1,085**	1,136	**9,191**	9,623
Gain on transfer of substitutional portion of employees' pension fund	**—**	(39)	**—**	(330)
Total	**¥ 1,085**	¥ 1,097	**$ 9,191**	$ 9,293

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

Assumptions used for the years ended March 31, 2007 and 2006 are as follows:

	2007	2006
Discount rate	**2.0%**	2.0%
Expected rate of return on plan assets	**3.0%**	3.0%
Amortization period of prior service costs	**14 years**	14 years
Amortization period of actuarial differences	**14 years**	14 years

As explained in Note 2, on January 1, 2005, the Company obtained approval from the Minister of Health, Labor and Welfare to transfer to the Japanese government the substitutional portion of the benefit obligation for employee services provided in prior years and related pension plan assets.

On May 25, 2005, pension assets for the substitutional portion maintained by the Employees' Pension Fund were transferred back to the government's scheme.

8. Income taxes

The Company is subject to a number of taxes based on income, which, in the aggregate, indicate aggregate statutory income tax rates in Japan of approximately 40.7% for the years ended March 31, 2007 and 2006.

The reconciliation of the difference between the statutory tax rate and the effective tax rate for the years ended March 31, 2007 and 2006 has not been disclosed because such differences are less than 5%, respectively.

Significant components of the Companies' deferred tax assets and liabilities as of March 31, 2007 and 2006 are as follows:

	Millions of yen		Thousands of U.S. dollars	
	2007	2006	**2007**	2006
Deferred tax assets:				
Temporary differences pertaining to a consolidated subsidiary	**¥ 23,911**	¥ 23,944	**$ 202,550**	$ 202,829
Loss on impairment of long-lived assets	**2,419**	2,404	**20,491**	20,364
Loss on sale-repurchase agreement of land	**1,719**	1,719	**14,562**	14,562
Land revaluation difference, net of taxes	**1,667**	1,667	**14,121**	14,121
Accrued bonuses to employees	**686**	675	**5,811**	5,718
Other	**3,386**	3,721	**28,683**	31,521
Total deferred tax assets	**33,788**	34,130	**286,218**	289,115
Valuation allowance	**(31,117)**	(31,425)	**(263,592)**	(266,201)
Net deferred tax assets	**2,671**	2,705	**22,626**	22,914
Deferred tax liabilities:				
Unrealized gains on securities, net of taxes	**7,825**	7,166	**66,285**	60,703
Land revaluation difference, net of taxes	**2,799**	2,799	**23,710**	23,710
Prepaid pension costs	**1,140**	624	**9,657**	5,286
Other	**778**	497	**6,590**	4,210
Total deferred tax liabilities	**12,542**	11,086	**106,242**	93,909
Net deferred tax liabilities	**¥ (9,871)**	¥ (8,381)	**$ (83,616)**	$ (70,995)

Deferred tax assets and deferred tax liabilities are included in the consolidated balance sheets at March 31, 2007 and 2006, respectively, as follows:

	Millions of yen		Thousands of U.S. dollars	
	2007	2006	**2007**	2006
Current assets: Deferred tax assets	**¥ 1,097**	¥ 1,355	**$ 9,293**	$ 11,478
Noncurrent assets: Deferred tax assets	**10**	42	**85**	356
Current liabilities: Deferred tax liabilities	**—**	—	**—**	—
Noncurrent liabilities: Deferred tax liabilities	**10,978**	9,778	**92,994**	82,829

9. Net assets

As described in Note 2.Significant accounting policies, "Change in accounting policy," net assets comprises four subsections, which are owners' equity, accumulated gains (losses) from valuation and translation adjustments, share subscription rights and minority interests.

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

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

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

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

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

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

At the annual shareholders' meeting held on June 28, 2007, the shareholders approved cash dividends amounting to ¥1,480 ($12,537 thousand). Such appropriations have not been accrued in the consolidated financial statements as of March 31, 2007. Such appropriations are recognized in the period in which they are approved by the shareholders.

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

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

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

As of March 31, 2007, the carrying amount of the land after the above one-time revaluation exceeded the market value by ¥1,938 million ($16,417 thousand).

10. Leases

Finance leases

As lessee

Total lease payments, including financing charges, under finance leases that do not transfer ownership of the leased property to the Company and its consolidated subsidiaries for the years ended March 31, 2007 and 2006 are ¥526 million ($4,456 thousand) and ¥437 million ($3,702 thousand), respectively.

Pro forma information of leased property such as acquisition cost, accumulated depreciation, obligations under finance leases, depreciation expense and interest expense of finance leases that do not transfer ownership of the leased property to the lessee on an "as if capitalized" basis as of and for the years ended March 31, 2007 and 2006 is as follows:

As of March 31, 2007

	Millions of yen			Thousands of U.S. dollars		
	Acquisition cost	Accumulated depreciation	Net leased property	Acquisition cost	Accumulated depreciation	Net leased property
Other property and equipment	**¥ 1,961**	**¥ 821**	**¥ 1,140**	**$ 16,612**	**$ 6,955**	**$ 9,657**
Other assets	**153**	**94**	**59**	**1,296**	**796**	**500**
Total	**¥ 2,114**	**¥ 915**	**¥ 1,199**	**$ 17,908**	**$ 7,751**	**$ 10,157**

As of March 31, 2006

	Millions of yen			Thousands of U.S. dollars		
	Acquisition cost	Accumulated depreciation	Net leased property	Acquisition cost	Accumulated depreciation	Net leased property
Other property and equipment	¥ 1,862	¥ 802	¥ 1,060	$ 15,773	$ 6,794	$ 8,979
Other assets	150	79	71	1,271	669	602
Total	¥ 2,012	¥ 881	¥ 1,131	$ 17,044	$ 7,463	$ 9,581

Depreciation expense and interest expense of finance leases that do not transfer ownership of the leased property are not reflected in the accompanying consolidated statements of income. Depreciation expense, computed by the straight-line method, was ¥492 million ($4,168 thousand) and ¥409 million ($3,465 thousand) for the years ended March 31, 2007 and 2006, respectively. Interest expense, computed by the interest method, was ¥33 million ($280 thousand) and ¥30 million ($254 thousand) for the years ended March 31, 2007 and 2006, respectively.

Obligations, excluding financing charges, under such non-capitalized finance leases as of March 31, 2007 and 2006 are as follows:

	Millions of yen		Thousands of U.S. dollars	
	2007	2006	**2007**	2006
Due within one year	**¥ 485**	¥ 444	**$ 4,108**	$ 3,761
Due after one year	**722**	709	**6,116**	6,006
Total	**¥ 1,207**	¥ 1,153	**$ 10,224**	$ 9,767

Operating leases

As Lessee

Obligations under operating leases as of March 31, 2007 and 2006 are as follows:

	Millions of yen		Thousands of U.S. dollars	
	2007	2006	**2007**	2006
Due within one year	**¥ 21**	¥ 50	**$ 178**	$ 423
Due after one year	**81**	25	**686**	212
Total	**¥ 102**	¥ 75	**$ 864**	$ 635

11. Segment information

Industry segment information

The Companies' operations are classified into five industry segments as follows:

Steel: Steel bars and shapes, steel plates and sheets, special steels, wire products, steel pipes, and steelmaking raw materials

Non-ferrous metals: Nickel, copper, aluminium, lead, zinc, tin, antimony, other metals, and solar cell-related materials and products

Foods: Frozen seafoods and meat products

Petroleum and chemicals: Petroleum products, chemical products, and cement

Other business: Lumber, machinery, and other

Segment information by business category for the years ended March 31, 2007 and 2006 is as follows:

Year ended March 31, 2007

	Millions of yen							
	Steel	Non-ferrous metals	Foods	Petroleum and chemicals	Other business	Total	Corporate	Consolidated
Net sales	¥ 689,188	¥ 242,952	¥ 91,954	¥ 237,343	¥ 58,585	¥ 1,320,022	¥ —	¥ 1,320,022
Costs and expenses	674,852	235,708	91,363	235,110	56,544	1,293,577	5,580	1,299,157
Operating income	¥ 14,336	¥ 7,244	¥ 591	¥ 2,233	¥ 2,041	¥ 26,445	¥ (5,580)	¥ 20,865
Assets	¥ 253,363	¥ 64,282	¥ 37,830	¥ 34,647	¥ 18,904	¥ 409,026	¥ 67,153	¥ 476,179
Depreciation	1,380	67	30	28	404	1,909	82	1,991
Capital expenditure	1,765	190	30	37	347	2,369	44	2,413

Year ended March 31, 2007

	Thousands of U.S. dollars							
	Steel	Non-ferrous metals	Foods	Petroleum and chemicals	Other business	Total	Corporate	Consolidated
Net sales	$ 5,838,103	$ 2,058,043	$ 778,941	$ 2,010,529	$ 496,273	$ 11,181,889	$ —	$ 11,181,889
Costs and expenses	5,716,662	1,996,679	773,935	1,991,614	478,984	10,957,874	47,268	11,005,142
Operating income	$ 121,441	$ 61,364	$ 5,006	$ 18,915	$ 17,289	$ 224,015	$ (47,268)	$ 176,747
Assets	$ 2,146,235	$ 544,532	$ 320,457	$ 293,494	$ 160,136	$ 3,464,854	$ 568,852	$ 4,033,706
Depreciation	11,690	568	254	237	3,422	16,171	695	16,866
Capital expenditure	14,951	1,610	254	313	2,939	20,067	373	20,440

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

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

Year ended March 31, 2006

	Millions of yen							
	Steel	Non-ferrous metals	Foods	Petroleum and chemicals	Other business	Total	Corporate	Consolidated
Net sales	¥ 614,046	¥ 139,109	¥ 87,624	¥ 210,255	¥ 46,673	¥ 1,097,707	¥ —	¥ 1,097,707
Costs and expenses	599,575	133,750	86,875	207,746	44,906	1,072,852	5,165	1,078,017
Operating income	¥ 14,471	¥ 5,359	¥ 749	¥ 2,509	¥ 1,767	¥ 24,855	¥ (5,165)	¥ 19,690
Assets	¥ 217,013	¥ 39,471	¥ 37,441	¥ 36,042	¥ 13,092	¥ 343,059	¥ 69,961	¥ 413,020
Depreciation	1,334	75	33	19	421	1,882	87	1,969
Loss on impairment of long-lived assets	434	10	—	—	—	444	7	451
Capital expenditure	3,131	58	32	231	587	4,039	68	4,107

Year ended March 31, 2006

	Thousands of U.S. dollars							
	Steel	Non-ferrous metals	Foods	Petroleum and chemicals	Other business	Total	Corporate	Consolidated
Net sales	$ 5,201,576	$ 1,178,391	$ 742,262	$ 1,781,067	$ 395,366	$ 9,298,662	$ —	$ 9,298,662
Costs and expenses	5,078,992	1,132,994	735,917	1,759,814	380,398	9,088,115	43,753	9,131,868
Operating income	$ 122,584	$ 45,397	$ 6,345	$ 21,253	$ 14,968	$ 210,547	$ (43,753)	$ 166,794
Assets	$ 1,838,314	$ 334,359	$ 317,162	$ 305,311	$ 110,902	$ 2,906,048	$ 592,639	$ 3,498,687
Depreciation	11,300	635	280	161	3,566	15,942	737	16,679
Loss on impairment of long-lived assets	3,676	85	—	—	—	3,761	59	3,820
Capital expenditure	26,523	491	271	1,957	4,972	34,214	576	34,790

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

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

Overseas net sales

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

Regional segment information

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

Overseas net sales of the Companies for the years ended March 31, 2007 and 2006 are as follows:

Year ended March 31, 2007

	Millions of yen			Thousands of U.S. dollars		
	Asia	Other areas	Total	Asia	Other areas	Total
Overseas net sales	**¥ 231,101**	**¥ 39,781**	**¥ 270,882**	**$ 1,957,654**	**$ 336,984**	**$ 2,294,638**
Percentage of consolidated net sales	**17.5%**	**3.0%**	**20.5%**			

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

Year ended March 31, 2006

	Millions of yen			Thousands of U.S. dollars		
	Asia	Other areas	Total	Asia	Other areas	Total
Overseas net sales	¥ 164,594	¥ 22,760	¥ 187,354	$ 1,394,274	$ 192,800	$ 1,587,074
Percentage of consolidated net sales	15.0%	2.1%	17.1%			

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

12. Contingent liabilities

At March 31, 2007 and 2006, the Companies were contingently liable as follows:

	Millions of yen		Thousands of U.S. dollars	
	2007	2006	**2007**	2006
As endorsers of export letters of credit and notes discounted	**¥ 4,116**	¥ 5,903	**$ 34,867**	$ 50,004
As guarantors of indebtedness	**2,350**	1,455	**19,907**	12,325

13. Related party transactions

Transactions with a close relative of directors of the Company and a non-consolidated subsidiary for the years ended March 31, 2007 and 2006 are as follows:

	Millions of yen		Thousands of U.S. dollars	
A close relative of directors	**2007**	2006	**2007**	2006
Real-estate				
Rents received	**¥ 6**	¥ 6	**$ 51**	$ 51

	Millions of yen		Thousands of U.S. dollars	
A non-cosolidated subsidiary	**2007**	2006	**2007**	2006
Steel products				
Sale	**¥ 8,558**	¥ —	**$ 72,495**	$ —

14. Impairment of long-lived assets

Due to the continuous decline in land prices in Japan, the Companies reduced the carrying amount of long-lived assets that were impaired to the recoverable amount. To assess the recoverable amount of long-lived assets, appraised prices are principally used as the basis for the measurement. For the purpose of recognition and measurement, the Companies grouped the long-lived assets principally based on the location of the business entity to which the assets belong. As a result of these procedures, loss on impairment of long-lived assets of ¥451 million ($3,821 thousand) for the year ended March 31, 2006 were recognized in other expenses in the consolidated statements of income.

The following tables summarize the losses on impairment of long-lived assets in the year ended March 31, 2006.

Year ended March 31, 2006

		Millions of yen	
Location	Purpose	Land	Total
Narashino, Chiba	Logistics center	¥ 258	¥ 258
Suminoe, Osaka	Logistics center	155	155
Ama, Aichi	Logistics center	31	31
Shima, Mie	Idle assets	7	7
Total		¥ 451	¥ 451

		Thousands of U.S. dollars	
Location	Purpose	Land	Total
Narashino, Chiba	Logistics center	$ 2,186	$ 2,186
Suminoe, Osaka	Logistics center	1,313	1,313
Ama, Aichi	Logistics center	263	263
Shima, Mie	Idle assets	59	59
Total		$ 3,821	$ 3,821

15. Subsequent events

At the ordinary general meeting of stockholders of the Company held on June 28, 2007, the following appropriation of retained earnings was approved:

	Millions of yen	Thousands of U.S. dollars
Cash dividends (¥7 per share)	¥ 1,480	$ 12,537

Note: The cash dividends per share for the year ended March 31, 2007 include a ¥2 ($0.017) commemorative dividend in celebration of the 60th anniversary of the Company's establishment.

Independent Auditors' Report

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

We have audited the accompanying consolidated balance sheets of Hanwa Co., Ltd. (a Japanese corporation) and consolidated subsidiaries as of March 31, 2007 and 2006, and the related consolidated statements of income, changes in net assets and cash flows for the years then ended, expressed in Japanese yen. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to independently express an opinion on these consolidated financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Hanwa Co., Ltd. and subsidiaries as of March 31, 2007 and 2006, 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.

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the years ended March 31, 2007 and 2006 are presented solely for convenience. Our audit also included the translation of yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 1 to the consolidated financial statements.

Osaka, Japan
June 28, 2007

KPMG AZSA & Co.

Corporate Data

Company Name:	Hanwa Co., Ltd. 阪和興業株式会社
Address:	**Osaka Head Office** Hanwa Bldg., 4-3-9 Fushimi-machi, Chuo-ku, Osaka 541-8585, Japan Tel: 81-6-6206-3000 Fax: 81-6-6206-3365 **Tokyo Head Office** New Hanwa Bldg., 1-13-10 Tsukiji, Chuo-ku, Tokyo 104-8429, Japan Tel: 81-3-3544-2171 Fax: 81-3-3544-2351 **Nagoya Branch Office** NHK Nagoya Broadcasting Center Bldg., 1-13-3, Higashisakura, Higashi-ku, Nagoya 461-8614, Japan Tel: 81-52-952-8800 Fax: 81-52-952-9300
Employee:	972 (consolidated: 1,637)
Independent Auditor:	KPMG AZSA & Co.

Domestic Offices

OFFICE	ADDRESS	TELEPHONE	FAX
Hokkaido	Kita-sanjo Bldg., 3-1-25, Kita-sanjo Nishi, Chuo-ku, Sapporo 060-0003, Japan	81-11-219-7375	81-11-219-7376
Tohoku	Sendai Daiichi Seimei Tower Bldg., 4-6-1 Ichiban-cho, Aoba-ku, Sendai 980-0811, Japan	81-22-227-7981	81-22-227-7969
Kyushu	Takeyama Hakata Bldg., 1-13-6, Hakata-eki Higashi, Hakata-ku, Fukuoka 812-0013, Japan	81-92-471-7121	81-92-471-7060
Niigata	Hokuetsu-daiichi Bldg., 1-2-25, Higashi Oodouri, Chuo-ku, Niigata 950-0087, Japan	81-25-255-1777	81-25-255-1776
Hiroshima	Hiroshima-fukuromachi Bldg., 5-25, Fukuro-machi, Naka-ku, Hiroshima 730-0036, Japan	81-82-543-2570	81-82-543-2561

Overseas Offices

OFFICE	ADDRESS	TELEPHONE	FAX
North and South America			
New York	Parker Plaza, 12th Floor, 400 Kelby Street, Fort Lee, New Jersey 07024, U.S.A.	1-201-363-4500	1-201-346-9890
Seattle	601 Union St. Suite 626, Seattle, WA, 98101, U.S.A.	1-206-622-2102	1-206-622-6464
Houston	Suite 515, 9800 Richmond Avenue, Houston, Texas 77042, U.S.A.	1-713-978-7904	1-713-978-7790
Los Angeles	1920 Main Street, Suite 1020, Irvine, California 92614, U.S.A.	1-949-955-2780/2781	1-949-955-2785
Vancouver	Suite 502, 1001 West Broadway Vancouver, British Columbia, V6H 4B1, Canada	1-604-876-1175	1-604-876-1085
Bogota	Carrera 9A No. 99-02, Oficina 804, Edificio Citibank Bogota, D.C. Colombia	57-1-618-2059	57-1-618-2056
Asia			
Seoul	Room 1705, Korea World Trade Center Bldg., 159-1, Samsung-Dong, Kangnam-ku, Seoul, 135-729, R.O.Korea	82-2-551-5387	82-2-551-5575
Beijing	Room 1201, Beijing Fortune Building, 5 Dong San Huan Bei-lu, Chaoyang District, Beijing 100004, P.R.China	86-10-6590-8333	86-10-6590-8340
Qingdao	Crowne Plaza Qingdao, Room No.601, Hongkong Middle Road 76, Qingdao City, Shangdon 266071, P.R.China	86-532-8-577-9990	86-532-8-577-9630
Dalian	Senmao Bldg., 20F, 147 Zhongshan Street, Dalian, Liaoning 116011, P.R.China	86-411-8368-6954	86-411-8368-6934
Shanghai	Room 902/904-907, Aetna Tower,No.107 Zhunyi Road, Shanghai 200051, P.R.China	86-21-6237-5260/5265~7	86-21-6237-5268/5269
Chongqing	Room 2203, Metropolitan Tower, 68 Zhon Rong Lu, Central District, Chongqing 400010 P.R.China	86-23-6381-1101	86-23-6381-7385
Fuzhou	Room 2501, Lippo Tianma Plaza, No.1 Wu Yi Road, Fuzhou City, Fujian 350003, P.R. China	86-591-83354165	86-591-83345202
Guangzhou	Unit 3701-3704, Profit Plaza, No. 76 Westhuangpu Road, Guangzhou, Guangdong 510623, P.R. China	86-20-8732-0451	86-20-8732-0402
Wuhan	Room 18H, Credit Cooperative Building, No. 618 Jianshe Road, Wuhan 430015, P.R.China	86-27-8549-7132	86-27-8578-7196
Dongguan	Longxi Industrial Zone, Zhouxi Management Area, Nan Cheng District, Dongguan, Guangdong 511715 P.R.China	86-769-2240-6418	86-769-2240-6448
Zhongshan	Unit 1909-1910, 19th Floor, Bank Of China Tower, 18 Zhongshan 3rd Road, Zhongshan, Guangdong P.R.China	86-760-332-0706	86-760-332-0696
Hong Kong	Unit 3201-3 32nd Floor, Vicwood Plaza, 199 Des Voeux Road Central, Hong Kong	852-25450110	852-25422544
Taipei	Room 303 3rd Floor. No. 79, Chung Shan North Road Sec.2, Taipei, Taiwan	886-2-2560-2214~17	886-2-2571-0693
Kaohsiung	Room B, 17th Floor, No.7 Su-Wei 4th Road, Kaohsiung, Taiwan	886-7-338-5508~10	886-7-338-5433
Bangkok	12th Floor, Unit 1204, Q.House Lumpini Building, 1 South Sathorn Road, Tungmahamek, Sathorn, Bangkok 10120, Thailand	66-2-343-8877	66-2-343-8878
Kuala Lumpur	Suite 8-12B-3, Level 14 (12B), Menara Olympia 8, Jalan Raja Chulan, 50200 Kuala Lumpur, Malaysia	60-3-2078-2311	60-3-2078-2380
Singapore	20 Cecil Street, #20-06/07 Equity Plaza, Singapore, 049705	65-6536-7822	65-6536-7855
Tawau	P.O. Box 1231 91037 Tawau, Sabah, Malaysia	60-89-750016~7	60-89-750019
Ho Chi Minh	7/C Office Service International Centre, No. 8 Nguyen Hue Street, District 1, Ho Chi Minh City, S.R. Vietnam	84-8-8225715	84-8-8225725
Jakarta	Menara Cakrawala 5th Floor Jalan M.H. Thamrin 9, Jakarta, 10340 Indonesia	62-21-3983-3211	62-21-3983-3212
Mumbai	803, Embassy center, Nariman point, Mumbai 400-021, India	91-22-2283-1222	91-22-2282-2060
Europe, Africa and Middle East			
London	2nd Floor, Finland House, 56 Haymarket, London, SW1Y 4RN. U.K.	44-20-7839-4448	44-20-7839-3994
Wien	Landstrasser Hauptstrasse 71/2 A1030 Wien, Austria	43-1-717-28-200	43-1-717-28-110
Kuwait	c/o Al-Sabih Engineering & Trading Co. P.O. Box No. 1114, 15462 Dasman, Kuwait Room 24, 6th Floor, Danat Trading Center, Abdullah Al-Ahmad Street, Sharq, Kuwait	965-243-7259	965-243-7263
Riyadh	P.O. Box 68974, Riyadh 11537, Saudi Arabia	966-1-473-1563	966-1-473-5624
Jeddah	c/o Office No. 219, Kaki Center P.O. Box 1224, Jeddah 21431, Saudi Arabia	966-2-661-0796	966-2-661-0796
Dammam	Office No.1, 1st Floor, Al-Hammam Center for Trading, King Fahad Bin Abdul Aziz Road, Dammam, Saudi Arabia	966-3-841-1745	966-3-846-7937
Dubai	Dubai Airport Free zone, 3rd East Wing, 4th Fl., Room#444 P.O.Box 54620, Dubai, U.A.E.	971-4-214-9527	971-4-214-9726

Board of Directors
(As of July 1, 2007)

President

Shuji Kita	北　修爾

Senior Managing Directors

Hironari Furukawa	古川　弘成
Noriyuki Hanafusa	花房　伯行

Managing Directors

Tetsuro Akimoto	秋元　哲郎
Yoshifumi Nishi	西　吉史
Takuji Kita	北　卓治

Directors

Osamu Seki	関　收
Hiroshi Omoto	大本　博
Takaharu Tada	多田　孝治
Kazuhisa Majime	馬締　和久
Hideo Kawanishi	川西　英夫
Masataka Toyoda	豊田　雅孝
Hiroshi Serizawa	芹澤　浩
Hiroaki Tsujinaka	辻仲　弘明
Hiroshi Ebihara	海老原　弘
Yukio Saito	齋藤　幸雄
Akihiko Ogasawara	小笠原朗彦
Yoshiaki Matsuoka	松岡　良明
Tadahiko Kaida	貝田　忠彦
Toshiaki Shirakawa	白川　敏昭

Corporate Auditors

Shosaburo Bando	坂東祥三郎
Toshiaki Taguchi	田口　敏明
Hajime Yosano	与謝野　肇
Masanori Kobayashi	小林　正典

Investor Information
(As of March 31, 2007)

Date of Establishment
April 1947

Stated Capital
¥45,651 million ($386,709 thousand)

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

Number of Stockholders
17,105

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

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

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

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