

Business Report

36th Term

April 01, 2007 to March 31, 2008

SEIKOH GIKEN Co.,Ltd.

Stock code: 6834



Contributing to Innovative Convenience in Our Society through Precision Machining and Optics Technologies

Masatoshi Ueno,
President and CEO

We would like to express our gratitude for the continued support of our shareholders and, present the following Business Report for our 36th period (March 2008).

Since the founding of the company, two core technologies - precision machining and optics technology - have provided the mainstay for our business development in optical disc mold and optical communication sectors. This period has been marked by active investment in the development of new businesses beyond these two core competencies. For instance, we are building the foundation for the future evolution of our business by developing an innovative lens manufacturing technology that yields greater thermal durability, and by applying optical crystal and fiber optics technologies to the development of our optical remote antenna devices and optical electric field sensor products. We have continually worked to improve upon precision machining and optics technologies to solidify the foundation of our operations that will contribute to our value as a corporation.

At the same time, we will continue to add new value to diverse markets by actively pursuing the most advanced technologies combined with creativity that cannot be duplicated by other companies, allowing us to contribute toward growth and development of innovative convenience in our society. We look forward to the understanding and support of our shareholders.

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Management Performance

The environment in which we do business - information technology and digital household electronics - has become increasingly more competitive. Companies are compelled to increase R&D spending yet are faced with downward pressure on retail prices which means many have no choice but to either merge or withdraw from certain markets. Despite these extremely competitive conditions, our group has been able to develop precision machining and optics technologies that we have fostered since our establishment, into a diverse array of products, and we have furthermore actively invested in R&D to set the stage to enable our corporate group to provide new value for an even wider market.

Specifically, we have been able to develop a special lens manufacturing technology through the use of mold and optics technologies, which has opened up new opportunities for us in new markets such as cellular telephones with a camera. With high thermal durability, the lens opens up many possibilities for future growth in such areas as the automotive and security markets. By developing optical remote antenna and optical electric field sensor using optical crystal and fiber optics technologies, we are also striving to further develop the basic structure to support entry into markets that have significant growth potential such as digital transmissions and mobile terminal devices.

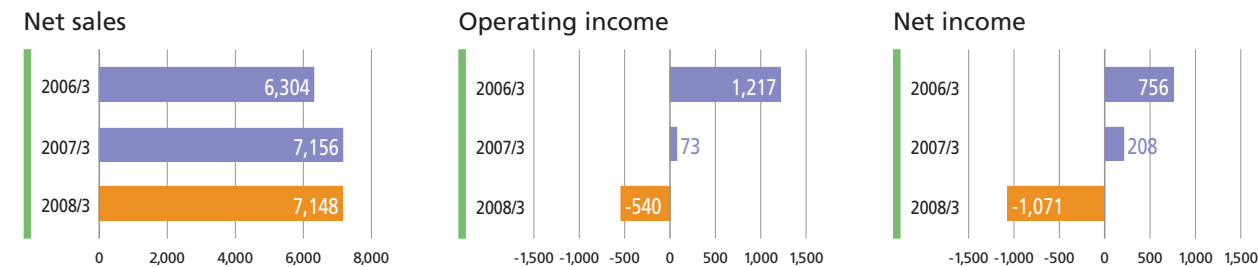
In order to readily keep pace with the changing market environment,

we continue to implement improvements in all aspects of manufacturing, sales and product development in our two core businesses: optical disc molds and optical communications. Company-wide, we have implemented cost-cutting measures and made other improvements such as consolidating overseas operations in order to increase operational efficiency. We are also further strengthening our competitiveness so customers choose us for our superior quality, cost and delivery performance.

The combined impact of these efforts has resulted in sales on a consolidated basis of 7.148 billion yen. From a profit/loss perspective, we incurred an operating loss of 426 million yen because of significant outlays for research and development. We incurred loss in non-operating expenses from the disposition of inventory assets and on foreign exchange which contributed to an ordinary loss of 540 million yen. In the optical communication business, some fixed assets were written off and deferred income tax assets were liquidated for a total net loss for this period of 1.071 billion yen.

In order to provide a solid basis for retained earnings for future investment and to pay consistent dividends to our shareholders, we will pursue a policy of 30% or more consolidated net profit recovery this period. Although we incurred a significant net loss this period, we fully intend to continue to pay dividends to shareholders with a planned disbursement of 30 yen per share at the end of this period.

Highlights of consolidated business performance (Unit: million yen)



Optical Disc Mold Group

Finally, an End to the Dispute over Next-Generation DVD Standards

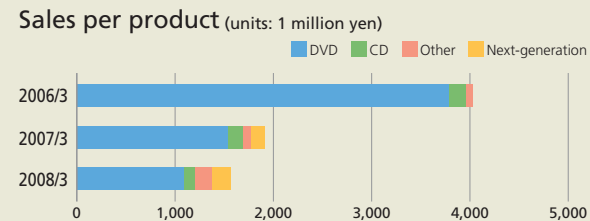
At the beginning of 2008, a consortium of movie producer in the US announced that it would formally support Blu-ray Disc technology, bringing to an end an ever-widening, two-year dispute between Blu-ray Disc and HD DVDs about which should be adopted as the standard format for the next generation of DVDs. Moreover, with continued downward price pressure in the market for flat panel televisions and next-generation DVD players/recorders, the market conditions for Blu-ray Discs are starting to ripen.

Since the demand for Blu-ray Discs was weak during this period, capital equipment by Blu-ray Disc replicators remained low while orders for optical disc molds remained brisk. Most optical disc replicators were holding off on capital and equipment investment in current DVD formats in order to save money for capital investments in Blu-ray Discs. Moreover, sales during this time was relatively stable with lower mold maintenance costs.

Blu-ray Discs to Reach Potential

Since Blu-ray is poised to become the industry standard, we have implemented necessary measures to be prepared when manufacturing of Blu-ray Discs is launched. While users continue to work toward better quality and consistency in production with prototype tooling, we are already adopting measures to improve profitability by moving ahead in the market for standard molds for Blu-ray Discs. In addition to Blu-ray Disc molds, we are also actively pursuing businesses outside of optical disc molds through the application of precision mold and precision polishing technologies as well as lens mold and SiC crystal polishing processing technologies.

As a result, consolidated sales in the optical disc mold business was 1.569 billion yen for this fiscal year (an 18.0% decrease from the previous year).



Business Development through Precision Mold and Precision Processing Technologies

In the mid-term, the major topic we face now is the expansion of optical disc mold business. We fully expect to maintain our position as the world's leading manufacturer of optical disc molds as we continue to expand into new sectors through the application of precision molds and precision machining in order to strengthen our transition to an organization that can consistently generate a steady profit.



Molds for DVD forming

Optical Communications Group

Development of the Structure to Support a Worldwide Optical Communications Network

With the proliferation of the internet, not only is the sheer volume of information increasing, but the optical communications network to support the demand for high-speed, large-bandwidth information technology is expanding worldwide. Since current optical trunk lines are inadequate to meet the demands for increasing bandwidth, there is more need for underwater cables and long-distance optical communications networks between continents.

A Slowing Trend for the Growth in the Domestic Market

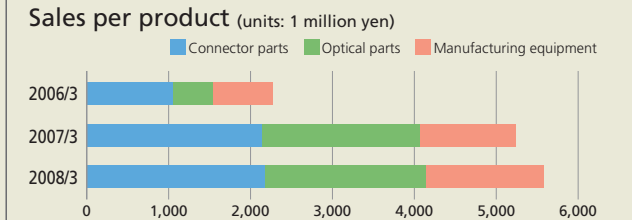
In Japan, NGN (Next-Generation Networks) which offer high-quality video and TV phone display using optical lines, and provide highly reliable communications for other applications, started in March of 2008.

However, NTT has revised its initial projections of 3 billion subscribers by the end of 2010 down to 2 billion, suggesting that the pace of the growth of the domestic optical communications network has slowed. Furthermore, Asian corporations, especially those from China, are entering the optical communications market in Asia in greater numbers, causing a decrease in prices for general-use optical communications parts.

Consolidation and Strengthening of Product Offerings

In the optical communications business, we have implemented measures to not only improve profitability but to expand our current marketing channels. For the two years up to last consolidated fiscal year, we have worked specifically on refining our product line which has grown through various mergers and acquisitions. We have also optimized our manufacturing footprint per product grouping,

especially using our subsidiary in China, to improve the overall efficiency of our manufacturing lines. We have also made installation of fiber optics networks more efficient by developing and marketing innovations in optical connectors and in a polishing machine holder which allows for multiple optical connector ends to be polished at once. As a result, optical disc mold business consolidated sales was 5.579 billion yen for this fiscal year (a 6.4% increase from the previous year).



Fiber Array

New Product Development for Maximum Added Value

Our strategy in the mid-term for the optical communications business is to enhance profitability. One example of these efforts is the introduction of new products utilizing our unique optical technologies to markets outside of the telecommunications sector so we may achieve continued growth. We are adding value to our current line of optical communications parts by improving and developing product functionality.

Events and Exhibition Information: Building a Base for Stronger Operations

By actively participating in marketing events and exhibiting our products and technology at trade shows, we have the opportunity to meet potential customers as well as to gauge the market for future trends and activity. Although we have participated in many such events and trade shows, a few will be highlighted here.

2007 Microwave Workshops & Exhibition (MWE 2007)

At the 2007 Microwave Workshops & Exhibitions held at the Pacifico Yokohama in November of 2007, we exhibited an optical field sensor that measures radio waves using optics, and an optical probe.

The optical probe, a new product which is an alternative to conventional metal coaxial cable, uses fiber optics to prevent the reflection of radio waves for more precise measuring. There is significant market interest in electrical field measurement used in the development of compact mobile antenna units so this product was popular among exhibit visitors.



FC EXPO 2008 4th International Hydrogen and Fuel Cell Expo

We coordinated our efforts with our business partners, FJ Composite, Inc. and Konishiyasu Co., Ltd., to exhibit at the FC Expo held in February 2008 at Tokyo Big Site.

At the FC Expo, we exhibited our carbon separator plates. Separator plates are one of the key component parts in fuel cells which are expected to become a next generation energy source in the future. We were able to highlight our superior technology in this area and one visitor even made the mistake of thinking the lustrous finish of our separator was metallic.



8th Fiber Optics Expo (FOE 2008)

We exhibited at the 8th Fiber Optics Expo (FOE 2008) held in January 2008 at Tokyo Big Site.

In addition to exhibiting cleaner for optical connectors with an attached shutter and optical connector ends, we showed our polishing machine for optical connectors. We also showed a video demonstrating the assembly process for the fusion-spliced optical connectors. Visitors seemed to show significant interest in the video, keeping our staff busy throughout the show.

Product Line: Quietly Supporting Advances in Society

The nature of our business is that we supply forming molds and component parts to our customers who then market the final products to the end consumer. Therefore, it is rare for most people to know of our products directly. Nevertheless, our products play a significant role in everyday activities shown below.

From now and moving forward, we will continue to expand the limits of precision machining and optics technologies as we, as a corporation, contribute to innovative convenience in our society.



Consolidated Balance Sheets

Item	Period	Current fiscal year As of March 31, 2008	Previous fiscal year As of March 31, 2007
Assets			
Current assets		17,517	17,442
Cash and deposits		13,984	13,399
Notes and accounts receivable		1,845	1,684
Inventories		1,294	1,743
Accrued corporate tax, etc.		68	76
Other current assets		329	546
Allowance for doubtful accounts		△6	△7
Fixed assets		7,598	8,771
Property, plant, and equipment		6,269	6,407
Buildings and structures		2,516	2,610
Machinery and delivery equipment		848	951
Land		2,211	2,211
Other		693	634
Intangible fixed assets		293	728
Goodwill		162	570
Other		130	157
Investments and other assets		1,034	1,635
Investment securities		23	30
Investment in real estates		886	896
Other		126	710
Allowance for doubtful accounts		△1	△1
Total Assets		25,115	26,214

Item	Period	Current fiscal year As of March 31, 2008	Previous fiscal year As of March 31, 2007
Liabilities			
Current liabilities		1,371	1,117
Trade accounts payable		395	215
Income taxes payable		56	34
Other		920	867
Fixed liabilities		606	585
Reserves for retirement benefits		269	243
Long term accounts payable		149	148
Deposits for guarantees received		164	171
Deposits received		19	19
Other		5	3
Total Liabilities		1,978	1,703
Net assets			
Shareholders' equity		22,979	24,388
Common Stock		6,791	6,791
Capital Surplus		10,571	10,571
Retained earnings		5,986	7,335
Treasury stock		△370	△309
Valuation and translation adjustments		157	122
Unrealized gains on securities		1	7
Foreign currency translation adjustment		155	114
Total net assets		23,136	24,510
Total liabilities and net assets		25,115	26,214

Consolidated Income Statements

Item	Period	Current fiscal year April 1, 2007 to March 31, 2008	Previous fiscal year April 1, 2006 to March 31, 2007
Net sales		7,148	7,156
Cost of sales		4,898	4,765
Gross profit		2,250	2,391
Selling, general and administrative expenses		2,677	2,465
Operating income or loss		△426	△74
Non-operating income		204	170
Non-operating expenses		317	22
Ordinary income or loss		△540	73
Extraordinary profit		7	405
Extraordinary loss		295	88
Net income or loss before taxes		△828	390
Income taxes		48	168
Deferred income taxes		194	13
Net income or loss		△1,071	208

Consolidated Statement of Cash Flows

Item	Period	Current fiscal year April 1, 2007 to March 31, 2008	Previous fiscal year April 1, 2006 to March 31, 2007
Cash flows from operating activities		984	695
Cash flows from investing activities		347	△1,335
Cash flows from financing activities		△335	△360
Effect of exchange rate on cash and cash equivalents		△26	24
Decrease in cash and cash equivalents		970	△975
Balance of cash and cash equivalents at the beginning of year		1,887	2,863
Balance of cash and cash equivalents at the end of year		2,857	1,887

Consolidated Statements of Changes in Net Assets (April 1, 2007 to March 31, 2008)

	Shareholders' equity					Total Valuation and translation adjustments	Total net assets
	Common Stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity		
Balance on March 31, 2007	6,791	10,571	7,335	△309	24,388	122	24,510
Changes of items during the period							
Dividends from retained earnings			△276		△276		△276
Net loss			△1,071		△1,071		△1,071
Purchase of treasury stocks				△60	△60		△60
Changes except in shareholders' equity						34	34
Total changes during the period	—	—	△1,348	△60	△1,409	34	△1,374
Balance on March 31, 2008	6,791	10,571	5,986	△370	22,979	157	23,136

Share outlook

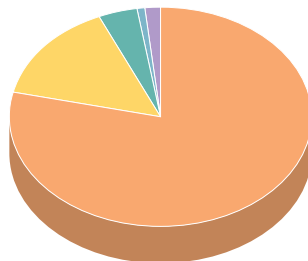
Authorized shares	37,000,000
Outstanding shares	9,333,654
Shareholders	4,359

Major Shareholders

Name	Shares held	Shareholding ratio
Masatoshi Ueno	912,000	9.9
Yumiko Tomaru	890,500	9.7
Yukiko Hosoe	882,500	9.6
KOUSHI Ltd.	694,000	7.5
KOUKEN Ltd.	623,000	6.8
Tamotsu Kimura	609,200	6.6
Mitsuo Takahashi	395,100	4.3
Fujiko Takahashi	381,500	4.1
Jun Ueno	329,000	3.6
Chie Yoshida	329,000	3.6

Distribution of shareholders

Individual, others	78.8%
Domestic corporations	14.7%
Financial institutions	4.2%
Non-Japanese	0.8%
Others	1.5%



Notes for Shareholders

Fiscal year: April 1 to March 31
 General meeting of stockholders held in June
 Shareholder registration date: Every March 31.
 Shareholder's register manager:
 The Chuo Mitsui Trust and Banking Company, Limited
 3-33-1 Shiba, Minato-ku, Tokyo 105-8574

Office:
 The Chuo Mitsui Trust and Banking Company,
 Limited Head Office
 3-33-1 Shiba, Minato-ku, Tokyo 105-8574
 Contact and postal address:
 The Chuo Mitsui Trust and Banking Company, Limited
 2-8-4 Izumi, Suginami-ku, Tokyo 168-0063
 Stock transfer agency department
 Phone (toll-free: 0120-78-2031)

Agency:
 The Chuo Mitsui Trust and Banking Company, Limited
 Branches throughout Japan
 Japan Securities Agents, Ltd. Head office and branches

(Notice) Please ask for the forms for notice of address change, request to purchase shares of less than one unit, requests for stock transfer, and notice of account number for receipt of dividends through the following toll-free phone number or the website of Chuo Mitsui Trust and Banking Co., Ltd., our nominated shareholders' register manager.

- Toll-free phone: 0120-87-2031
(24-hour operation, automated voice guide)
- URL: http://www.chuomitsui.co.jp/person/p_06.html

Corporate Profile

Company Name: SEIKOH GIKEN Co., Ltd.

Domestic Offices:

- Head Office 296-1 Matsuhidai, Matsudo City, Chiba, Japan.
- 1st Building 286-23 Matsuhidai, Matsudo City, Chiba, Japan.
- 2nd Building 296-1 Matsuhidai, Matsudo City, Chiba, Japan.
- 4th Building 415-2 Matsuhidai, Matsudo City, Chiba, Japan.

Overseas Office:

- Taiwan Branch 8F-2 285 Kuang Fu Road, Sec 2, Hsin Chu City, Taiwan, Republic of China

Overseas Subsidiaries:

- SEIKOH GIKEN USA, INC.
- SEIKOH GIKEN Hangzhou Co., Ltd.
- SEIKOH GIKEN EUROPE GmbH
- SEIKOH GIKEN Dalian Co., Ltd.
- SEIKOH GIKEN Hong Kong Co., Ltd

Established: June 17, 1972

Capital: 6,791,682,700 yen

Number of Employees: 736 (including subsidiaries)

Executives

President and Chief Executive Officer	Masatoshi Ueno*
Executive Director	Tamotsu Kimura*
Director	Yasumasa Yoshida*
Director	Haruo Yanase*
Director	Katsuhiko Okubo
*Additional post as company executive	
Senior Corporate Auditor	Takeshi Miyanaga
Corporate Auditor	Toru Miyoshi
Corporate Auditor	Toshio Aiba
Executive Officer	Masahide Hioki
Executive Officer	Shigeta Ishikawa
Executive Officer	Shin Sumida
Executive Officer	Yujiro Yamazaki
Executive Officer	Yasuhiko Mori

Notes: 1. Director Katsuhiko Okubo is an external director.
 2. Corporate auditors Toru Miyoshi and Toshio Aiba are external auditors.

Overseas offices



Our company information
is available also at our Web site.



<http://www.seikoh-giken.co.jp>



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